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EDITORIAL

Constructive relationship between employees and management establishes sustainable growth of the any corporation. This is based on good corporate governance practices. Dr. Harish Oza has presented a philosophical view of business ethics in corporate governance. Cultural influence on accounting in Indian scenario has been analysed by Dr. Bhabhatosh Banarji. Dr. Pratapsingh Chauhan has presented an empirical study of effect of mergers on financial performance in Indian context. Benefits and challenges of IFRS has been analysed by Dr. S. Sudhalaimuthu and Dr. P. Jaisinth. Dr. M. Tenmozhi has raised the issue of accounting education and research. Dr. Sanajy J. Bhayani has presented the impact study of voluntary corporate disclosure on accounting earnings in context of Indian firms. A case study of corporate governance practices have been sketched out by Dr. M. Muniraju, Dr. N. Srinivas and Dr. V.V. Subramanya. Dr. K.V. Ramanamurthy and Dr. Vanisree Talluri have analysed a 360^{o} appraisal on accounting education and research. The topics of extensible business reporting, switching to IFRS have been incorporated and useful inferences have also been given in this issue of journal.

June 30, 2011

Professor Nageshwar Rao
Chief Editor

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PRESIDENT'S SPEAKS

"Not much happens without a dream. And for something great to happen, there must a great dream. Behind every achievement is a dreamer of great dreams".

- Robert Greenleaf

Dear Members,

It is said that dream is reflected in our vision. The vision is what we want to be! In the context of a professional body like IAA and its members, the vision is to be articulated capturing the expectations of its various stakeholders such as the students, the parents, the universities and colleges, the trade and Industry and the society at large. We have to make SWOT Analysis of ourselves and to work for the bright future of the association. It is our dream/vision to be a one of the most respected association in the world to work for the betterment of accounting education and research in the coming years.

I had an opportunity to visit our Kolkata Branch, Jaipur Branch, Udaipur Branch andVaranasi Branch. I must congratulate Prof. (Dr.) Bhabatosh Banerjee for organizing the excellent 10th International Accounting Conference of the IAA Research Foundation on January 8 & 9, 2011. It was indeed a well-organized International Conference in India. I also congratulate Prof. (Dr.) Sugan C. Jain for organizing a remarkable 10th International Conference of Research Development Association on January 22-23, 2011. I must appreciate the work of Prof. (Dr.) G. Soral for conducting National Accounting Talent Search-2010. Prof. G. Soral and his team have done excellent work for successfully organizing this talent search for the undergraduate commerce students throughout India. I express my sincere thanks to Prof. (Dr.) M.B. Shukla,M.G. KashiVidyapeeth, Varanasi for providing good hospitality during my visit to Varanasi.

I am pleased to inform you that IAA Gujarat Branch has successfully organized International Conference on Changing Paradigm on Accounting and Finance in Global Perspective. I am glad to know that several our branches have also organized Seminars/ Conferences on the emerging issues in Accounting. In short,I am happy to state that our association as well as IAARF and RDA are doing well for strengthening accounting environment in the country.

We all know that present decade is expected to further enhance and diversify opportunitiesfor our profession. Good Corporate Governance& Business Ethics, Convergence with IFRS, Direct Tax Code and Goods and Services Tax,XBRLand high benchmark for social reasonability and others have demanded new syllabus, coaching, examination, practical training and research in our field. For all these new challenges, our association has to play vital role in coming years.

I would like to invite our members to attend 34th All India Accounting Conference at Jaipur on December, 17-18, 2011 in large numbers. Preparations for the annual conference are in full swing by Prof. S.S. Modi, Conference Secretary. It is my earnest request to you to prepare excellent research papers for presentation and have the healthy live discussion at the Conference.

At last, apart from our association working, I would like to draw your kind attention on the present scenario of our beautiful planet. Individuals are suffering from heavy price rising and corruption, the country is highly damaged by different scandals and terrorism andthe world has fear from various types of terrorism and global warming. In this painful situation, I wouldlike to quote our peace prayer for peace of mind, peace of country and peace for world in present scenario:

OM ASATO MAA SADGAMAYA, TAMASO MA JYORTIGAMAYA, MRITYOMA AMRITAM GAMAYA, OM SHANTIHI! SHANTIHI! SHANTIHI

Your suggestions and observations are solicited, my E-mail id being harishoza51@gmail.com

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CORPORATE GOVERNANCE AND BUSINESS ETHICS

**Harish S. Oza*

ABSTRACT

Corporate Governance is highly related with ethical conduct of business. Business is a form of economic activities, which is governed by the principle of input and output. Ethics, on the other hand is concerned with moral behavior of an individual and clarifies what can be described as right or wrong behaviour. Business is a part and parcel of human life and business organizations do not exist and function outside the society. Therefore, business can not alienate itself from the concept and norms of good and bad, developed by human society. Corporate Governance scenarios prevalent in India are good. The different agencies have made remarkable suggestions for good CG practices. It is interesting to note that modern society afflicted by "Moral Pollution" which is not confined to the corporate sector alone, but is all pervasive. In such climate, more gimmicks of reforming the corporate sector would not automatically guarantee good CG. What is required is an evolution of a "Culture of Conscience" and "Business Ethics".

अन्यायोपार्जितं द्रव्यं दशवर्षाणि तिष्ठति ।
प्राप्ते चैकादशे वर्षे समूलं तद् विनश्यति ॥

The money earned by unjust means remains only for ten years, at the most. In the very beginning of the eleventh year it perishes, all of it, the capital and the gains, everything.(6)

It is difficult to explain this kind of exact calculation which has no basis, formula or table and mathematical logic. May be, this idea has been picked up from some mythological story which is not very well-known. Anyway, the message is that ill gotten money does no good. Sooner or later it will go as easily as it has come.

Chanakyaneeti

Corporate Governance is highly related with ethical conduct of business. Business is a form of economic activities, which is governed by the principle of input and output. Ethics on the other hand is concerned with moral behaviour of an individual and clarifies what can be described as right or wrong behaviour. Ever since the evaluation of the company form of business, in rapid industrialization era, the shareholders were considered initially only stakeholders.

**Director, S.D. School of Commerce, Gujarat University, Ahmedahad (IAA, President).*

The separation of ownership and control in corporate sector enterprises frequently brings about the 'agency' problem, wherein management may take actions that compromise the interests of its shareholders. Business, after all, was supposed to be run on their behalf and for their benefit. Milton Friedman's celebrated statement "Business of business is business" typically represented this thinking. Therefore, some people believe that business has nothing to do with ethics and vice versa. Though, this view looks convenient and attractive, it does not carry sound logic. Business is a part and parcel of human life and business organizations do not exist and function outside the society. Therefore, business can not alienate itself from the concept and norms of good and bad, developed by human society.

The increasing number of Corporate Scandals in the last few years have stained Corporate Governance reputation and questioned the effectiveness of its current structure. In light of this, in the paper we would like to discuss Corporate Governance as well as Business Ethics in the changing scenario.

A CONCEPTUAL FRAMEWORK

Corporate Governance is the system of structural, procedural and cultural safeguard designed to ensure that a corporation is run in the "best" long-term interests of its shareholders, as well as, other stakeholders. Corporate Governance may be elaborate as under:
Corporate Governance is -

- Business Ethics
- Philosophy of Business
- Culture of Organization
- Corporate Social Responsibility
- Shareholder Value Creation
- Dynamic Leadership
- Clean and Green World

Corporate Governance (CG) is not merely about "ethical conduct of business "as the SEBI report on the subject says. It is about leadership. For, Governance means leadership, especially top leadership at the level of CEO & CFO and the Board of the Directors. The manifesto of CG must not be merely a manual of procedure or a legal document or even an ethical code.

CHANGING SCENARIO OF CG IN INDIA

Rules and codes also play a significant role in developing good governance. Rules bring uniformity and specifies prohibitions. Rules help in discipline. Rules normally emerge from laws, statutes and ordinances. Many times rules have a legal background. Throughout in the world, tremendous changes have been made in corporate governance rules and regulations. These are as under:

CG REFORMS - GLOBAL

1. Foreign Corrupt Practices Act, o 1977 (USA).
2. Securities And Exchange Commission (USA) 1977.
3. Adrian Cadbury Committee (1991) - UK Set Up By London Stock Exchange" Code of Best Practices" (December 1992) 19 Point Report.

4. Greenbury Committee (1995) - UK.
5. Hampel Committee (1998)- UK.
6. Combined Code (1998) Introduced by London Stock Exchange.
7. OECD Principles on Corporate Governance, 1999. The Organization For Economic Co-Operation and Development (5 Point Report).
8. The Surbanes Oxley Act (2002) - USA.

CG REFORMS - INDIAN OCCURRENCE

1. CII -THE PIONEER, 1996
2. SEBI - KUMARMANGALAM COMMMITTEE, 2000
3. DCA - SANJEEV REDDY COMMITTEE, 2000
4. GOI -NARESHCHANDRA COMMITTEE, 2002
5. SEBI -NARAYAN MURTY COMMITTEE, 2002
6. GOI -J.J.IRANI COMMITTEE-DEC., 2004
7. GOI - NATIONAL FOUNDATION FOR CG, 2007
8. MCA -CG VOLUNTARY GUIDELINES, 2009

TRANSPARENCY AND ETHICS

A key to good corporate governance is transparency. Transparency expects a free flow and free exchange in information. Well-informed employees are the sound pillars of good corporate governance. The dissemination of right information to the right people (employees) not only builds up awareness among them but also enhances their moral and productivity. Many of the wrong doings in the corporate functioning are due to lack of information, wrong and inadequate information, misunderstood facts or falsified information. Transparency requires enforcement of right to information-nature, timeliness, and integrity of the information produced at each level of interface. In fact, transparency is measured by the ability of the outsiders to assess true position of a company -availability of firm specific information to those outside publicly traded firms.

Transparency is an important value and values are cultivated through awakening, convincing and persuading and shared meaning of the concept. It is more in the form of a learning process rather than fixation and imposition of certain rules through coercion. However, values once developed and cultivated also require development of a system of checks and balances. Because human beings are susceptible to vices. Good governance therefore requires a system of checks, balances, evaluations and introspections.

DISCLOSURE AND ETHICS

As we know that better governance emphasizes on transparency and communication, dissemination of relevant information to interested parties is very important in this respect. Corporate disclosure implies the disclosure of relevant information to entities that are affected by that information. The different stakeholders have different aspects of the company.

The different information which the company should provide to different stakeholders as a part of corporate disclosure is as follows:

(1) The **customers** should be informed about product quality, product-ingredient, product features, precautions and safety measures, etc. This type of product information is interesting and useful to the customers as it has a direct/indirect bearing upon the customers' benefits.

(2) The **employees** should be informed about their duties and responsibilities, nature of work, wages for the work, rules and regulations relating to performance and behaviour, leave policy, rules regarding transfer and promotion, grievances redressal machinery, monetary and non-monetary benefits to employees, employees' right, welfare schemes, rules regarding termination of the services of employees.

(3) The **shareholders** should be informed about the company's profitability, safety of their capital future prospects and growth plans, financial position of the company, its assets and liabilities, its incomes and expenditures, state of business affairs and value of the investment of the shareholders, etc.

(4) The **government** should be informed about the financial results of the company, its tax-liability and tax-payment, compliance of various laws, methods of operations, safety measures, working conditions, employee satisfaction, environmental protection, product safety, fair pricing and fair trade practices.

(5) The **general public** should be informed about waste disposal management and environmental protection, employment policy of the company, nature of company's business and its operations, financial soundness of the company, its products and services.

Recently, the **Ministry of Corporate Affairs, has issued Corporate Governance Voluntary Guidelines, 2009 for disclosure**. The main provisions of guidelines are as under:

I. BOARD OF DIRECTORS

- A. Appointments of Directors
- B. Independent Directors
- C. Remuneration of Directors

II. RESPONSIBILITIES OF THE BOARD

- A. Training of Directors
- B. Enabling quality decision making
- C. Risk Management
- D. Evaluation of Performance of Board of Directors, committees thereof and of individual directors.
- E. Board to place systems to ensure compliance with laws.

III. AUDIT COMMITTEE OF BOARD

- A. Audit Committee - Constitution
- B. Audit Committee - Enabling powers.
- C. Audit Committee - Role and Responsibilities.

IV. AUDITORS

A. Appointment of Auditors

B. Certificate of Independence

C. Rotation of Audit partners and firms

D. Need for clarity for information to be sought by auditor and/or provided by the company to him/it.

E. Appointment of Internal Auditor.

V. SECRETARIAL AUDIT

VI. INSTITUTION OF MECHANISM FOR WHISTLE BLOWING.

SUGGESTIONS

Nowadays much is talked about value-based governance, a concept which has ethical flavour. It is similar to management by values. Value based governance involves creation and establishment of appropriate values to direct the corporate-functioning and observing these values while exercising using and controlling the corporate power and resources for performing those functions. Value based governance requires value-creation in respect of employees, customers, investors and society. Corporate governance does not mean more and more regulations; its main focus should be on creating an environment where respectability matters. The followings are some suggestions for creation of such value based governance environment:

1. Better balance of power between the management and the board.
2. There should be a peer evaluation for each member of the board.
3. Shareholders must actively stop us as owners and engage directors on corporate issues.
4. Change to mindset of managers and workers for implementation of business ethics.
5. Corporations must integrate their value systems into their recruitment programmes.
6. Every employee has to appreciate that the future of the corporation is safe only if he/she does the right thing in every transaction.
7. Corporations have to create systems, structures and incentives to promote transparency, since transparency brings accountability.
8. Corporate leaders believe in the values of the company. They are powerful role models.
9. Broader market reforms to create incentives for good governance.
10. Acceptance of IAS-IFRS by all nations will make it easy to compare the performance of corporations in an industry across the countries, in a global environment.
11. Senior management remuneration must be based on the principle of fairness, transparency and accountability.
12. We must institute international award for good corporate behaviour and promote a global corporate governance ranking system for Fortune 500 corporations. To sum up: Corporations that genuinely recognize and embrace the principle of "good governance" will desire enormous benefits.

CONCLUSION

The notion of having "One size fits all" is not only inappropriate but undesirable too. Jamshed Irani, Director, Tata Sons Ltd has rightly pointed out that C.G. is not something, which can be mandated. Infect, it is a culture which has to be built up gradually with strong link between the board and the management of the company.

It is interesting to note that modern society afflicted by "Moral Pollution" which is not confined to the corporate sector alone, but is all pervasive. In such climate, more gimmicks of reforming the corporate sector would not automatically guarantee good CG. What is required is an evolution of a "Culture of Conscience". Therefore, corporate governance without business ethics will not be successful in the world. At last, I would like to quote 'Chanakya' as under:

अयुक्तं स्वामिनो युक्तं युक्तं नीचस्य दूषणम् ।
अमृतं राहवे मृत्युर्विषं शङ्करभूषणम् ॥

Even an incorrect act done by men of power and authority gets justified and hailed. And even a correct deed done by a person of low birth gets criticised and condemned on various counts. The demon Rahu lost his life when he partook nectar. But Lord Shiva gulped down the deadliest of the poisons and became immortally more adored. His apple turned blue by the effect of the poison became his distinguishing mark and a symbol of his greatness. (7)

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CULTURAL INFLUENCE ON ACCOUNTING IN INDIA

**Bhabatosh Banerjee*

ABSTRACT

While discussing various theories of cultural influence on accounting system, the author identifies a few important developments which have influenced the accounting and reporting systems in India. The exploratory framework has been found suitable for historical analyses of the influence of culture on the accounting and reporting systems.

1. THE ISSUE

Accounting is influenced by the environment or culture surrounding the social system in a country. Different countries have different culture - such differences result in diversity in accounting in individual countries. Culture has been considered 'as a cause of the causes' of international accounting differences (Nobes & Parker, 2002). This paper examines the influence of culture on accounting in India. The paper is organised as follows. Section two gives meaning of the term 'culture'. Section three documents prior researches. The next section deals with important developments in India which have influenced accounting and reporting systems. The paper is then concluded in section five.

2. MEANING OF CULTURE

Culture is a term used in anthropology. It 'comprises everything - from the traditional manner in which people produce, cook, or eat their food, way in which they plan and build their houses, or arrange them on the surface of land; to social, moral and religious values which are generally accepted by men, and also *habitual methods* by means of which satisfaction is gained in respect of the higher qualities of the mind' (Radhakrishnan, 1958). India is a vast country, as vast as Europe without Russia, and is a sub-continent in itself. So, it is possible to have different methods, customs and values.

Culture represents the most basic values that an individual or group of individuals or an organisation may hold. It is the collective programming of mind that distinguishes the members of one human group from another. Culture includes a set of societal values that drive institutional form and practice. For example, people living in Singapore and Switzerland

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have global mindset - learning foreign languages, interacting with people of other countries, exposed to foreign customs, and so on. On the other hand, majority of Americans do not have that orientation - one reason might be two great oceans, one in the East and the other in the West, are separating them from rest of the globe and they had tremendous national resources to bank upon. But over time, economic conditions of the US have been changing and so are the attitudes of the Americans. Similarly, take, for example, the contrast in customs and values in India between Keralites, Gujratees, Bengalees and Assamese.

Accounting is influenced by its environment, including culture of the country in which it operates. Nobes and Parker (2002, p.16) have defined, in this context, accounting 'as the published annual financial reporting by companies' because if accounting is seen as synonym with double entry, it is fairly similar universally. Financial accounting and corporate reporting regulations are viewed as comprising a social system, formulated and implemented by social entities with the objective of fulfilling the social functions of providing accountability and decision making information (McKinnon, 1986). The different dimensions of cultural values and their impact on accounting are given in the next section through a brief reference to earlier researches.

3. EARLIER RESEARCHES

Based on a study of over 1 lakh IBM employees in 39 countries, Hofstede (1980) identified four cultural values viz. (i) individualism vs. collectivism, (ii) uncertainty avoidance, (iii) power distance and (iv) masculinity vs. femininity. *Individualism* stands for a preference for a loosely-knit social framework where individuals are supposed to take care of themselves and their immediate families. *Collectivism* signifies a tightly-knit social framework in which individuals can expect their relatives, clan or other in-group to look after them in exchange for unquestioning loyalty. *Uncertainty avoidance* is the degree in which the members of a society feel comfortable with uncertainty. Such a feeling influences the makeup of institutions and organisations. A strong uncertainty avoidance society maintains rigid codes of belief and behaviour and is intolerant towards deviant persons and ideas. On the other hand, a weak uncertainty avoidance society maintains a more relaxed atmosphere and variance is more easily tolerated.

Power distance indicates the extent to which the members of a society accept that power in institutions and organisations is distributed unequally. People in large power distance societies accept a hierarchical order in which everybody has a place which needs no further justification. In small power distance societies, people strive for power equalisation and demand justification for power inequalities. Collectivism countries always show large power distance although individualistic countries do not always show small power distance.

Masculinity vs. femininity indicates the ways in which a country allocates social roles to the members of two sexes in the society. Masculinity stands for man-dominated society where there is preference for achievement, leadership, hero assertiveness and so on. Femininity denotes preference for relationship to work, modesty, caring for the weak, and quality of life. From management point of view, the former may be represented by characteristics of achievement motivation, and the latter, relationship motivation. In India, in the more developed states and cities, like Bangaluru, Delhi, Goa, Hyderabad and Kolkata, we find a different picture with respect to customs and values than those, say, in Imphal, and Gauhati. Manipur is one state where we find absolute domination of femininity over masculinity.

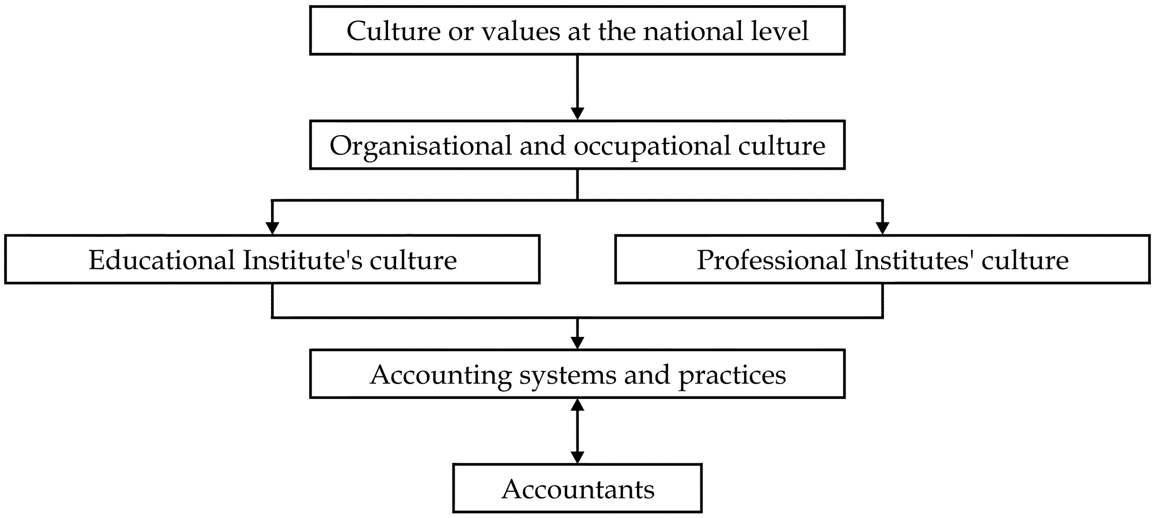
If we apply Hofstede's framework to India, the position would be as in table 1.

Table 1
Application of Hofstede's Framework to India

Characteristic	**Position**	**Explanation**
Individualism vs. collectivism	Low individualism and low to high collectivism	Low preference for a loosely-knit social framework and moderate to high preference for a tightly-knit social framework the degree of which varies in different social systems.
Uncertainty avoidance	Low	Generally, rigid codes of belief and behaviour are not maintained. There is also tolerance for deviations.
Power distance	High	Statutory and professional regulations are important. People easily accepts hierarchical order.
Masculinity vs. femininity	High masculinity and low femininity	Men dominates almost all walks of life including accounting profession in India. To take an extreme (political) example, the country elected only one woman Prime Minister in 65 years and we have now four women Chief Ministers (Delhi, UP, Tamilnadu and West Bengal) out of 28 states.

Given that culture or values identified at the national level may be reflected to some extent in organisation and occupational sub-cultures subject to refinements, additions and variations, it may be expected that such values have an impact on accounts, accounting systems and practices (Gray, 1988). Gray's theory of cultural influence on accounting systems and practices can be put in a simplified form as in figure 1.

Figure 1
Cultural influence on accounting



Following Hofstede's model, Gray identified culture as the value system shared by major groups of population in a country. His theoretical framework links culture and accounting. He identified four accounting values in this context:

(1) *Professionalism vs. statutory control:* Preference for maintenance of individual professional judgment and self-regulation as opposed to prescriptive statutory requirements.

(2) *Uniformity vs. flexibility:* Similarity of accounting practices by companies over time as opposed to flexibility in the system.

(3) *Conservatism vs. optimism:* Cautious approach to measurement with a view to providing for future uncertainties. Optimism indicates a risk-taking approach.

(4) *Secrecy vs. transparency:* Confidentiality stands for restricted circulation of accounting information. Transparency is openness or public accountability.

Gray conjectured that the value system of accountants are related to and probably derived from their respective societal cultural values as identified by Hofstede. Applying Gray's model in India, we can have the following position:

- *Low professionalism and high statutory control:* India's accounting profession is the fourth largest in the work but still there is more preference for regulatory control rather than relying on individual professional judgement.
- *High uniformity but low flexibility:* The Companies Act, 1956 lays down everything relating to measurement and presentation of accounting information rather than leaving it to individual companies or groups of companies in a particular industry. So, there is high uniformity and little flexibility.

- *Low conservatism and high optimism:* The accounting framework encourages a cautious approach rather than a risk-taking approach in measurement and presentation of accounting information. In case of public sector enterprises, there is little scope for decision making that exposes a firm to risky situation because of more public accountability.
- *Greater transparency and less secrecy:* In a developing economy like India, there is preference for public accountability or openness to accounting information. To ensure public accountability, Companies Act lays down the kind of information to be provided in the annual reports of corporate enterprises. For public limited companies enlisted on stock exchanges, the SEBI mandates publication of other information for protecting investors' rights. Thus, there is greater transparency and less secrecy.

Gray combined his model with that of Hofstede to establish the relationship between societal and accounting values (table 2).

Table 2
Relationship between Societal and Accounting Values

Accounting values	**Societal values**			
	Individualism	**Uncertainty avoidance**	**Power distance**	**Masculinity**
Professionalism	High	Low	Low	High
Uniformity	Low	High	High	Low
Conservatism	Low	High	High	Low
Secrecy	Low	High	High	Low

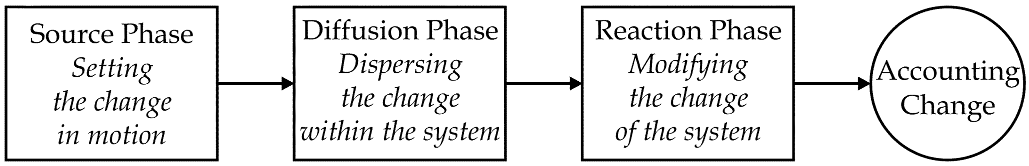
In this framework, individualism and uncertainty avoidance are posited to be influential societal values at the level of accounting sub culture. Similarly, power distance, although important, is less significant and masculinity has negligible impact on the accounting value system. Finally, Gray hypothesised that professionalism was likely to influence the authority of accounting systems, uniformity was likely to influence the force of application of accounting systems, conservatism was likely to influence the measurement practices used in accounting systems and that secrecy was likely to influence the extent of information disclosure requirements of accounting system. Gray's framework has been one of the most popular approaches to the analysis of the effect of culture on accounting.

We have mentioned earlier McKinnon's theoretical framework (1986). Based on social systems theory and the work of Smith (1973, 1976), he studied accounting change and the development of the accounting system in Japan. In this framework, financial accounting and corporate reporting regulation are viewed as comprising a social system, formulated and implemented by social entities with the objective of fulfilling the social functions of providing accountability and decision making information.

The framework combined both endogenous and exogenous theories within sociology to overcome the constraints inherent in each approach. The endogenous approach views change as a continuous and slow process coming up from the inherent growth potential of the system. The exogenous approach, on the other hand, views social change as being the result of influence of factors from outside the system. Harrison and McKinnon (1986) developed a modified exogenous framework within which both external stimuli for change and the system's internal response to the change forces are analysed.

The modified exogenous framework of McKinnon and the theoretical framework of Gray are adapted and combined by Verma and Gray (1998). A simplified version of the model can be given in figure 2 with some explanation that follows.

Figure 2
Environment or Culture surrounding the Social System



In this model, any accounting change is the outcome of interaction of many cultural factors at three phases - the source phase, the diffusion phase and the reaction phase. The source phase encompasses the events which activate the system towards a change. These events are generally exogenous such as imperialism, war, trade and technological exchange, economic and political interdependence and international organisations which play a significant role in stimulating change. The events at this stage are characterised as 'intrusive events' or 'change stimuli'. In other words, this phase sets the change in motion.

The diffusion phase encompasses events which accommodate the change activating forces and disperses them within the system. They are usually endogenous to the system. It represents both intra-system activity (activity between different parts of the accounting system) and trans-system activity (activity between the accounting system and its neighbouring systems; for example, the legal system, the financial system and the international system).

The reaction phase encompasses events which occur subsequent to and resulting from the diffusion phase events and which serve to modify or intensify the effect of the change. These events are also usually endogenous to the system.
In section four, we use Verma and Gray model in making an analysis of some of the events that have contributed to accounting change in India.

4. CULTURAL INFLUENCE ON ACCOUNTING

There are many important events influencing accounting and reporting systems in India. We may classify them into four groups, viz. (i) corporate legislation, (ii) professional developments, (iii) financial developments, and (iv) other developments (mainly economic and political).

Under first group, the most important legislative event is the enactment of the Companies Act, 1956, that contains detailed provisions relating to accounting and reporting. In the professional development group, we have events like establishment of professional accounting bodies in the country, making maintenance of cost accounting records compulsory under section 209(1)(d) with provision for cost audit under section 233-B and constitution of Accounting Standards Board by the Institute of Chartered Accountants of India and issuance of accounting standards. Important financial developments include establishment of financial corporations, Life Insurance Corporation, Unit Trust of India, Industrial Reconstruction Corporation of India and Insurance Regulatory and Development Authority Act which influenced accounting and reporting practices in the country. Included in other economic and political events are setting up of Public Enterprises, Bhaba Committee for reconstitution of the Companies Act, Sachar Committee on Companies Act, Ramkrishnan Committee to suggest modifications/amplifications to accounting standards promulgated by the ICAI for public enterprises, setting up of the Securities and Exchange Board of India to regulate the capital markets, adopting new economic policy favouring globalisation, repealing Capital Issues Control Act, 1947, establishment of National Advisory Committee on Accounting Standards (NACAS), to mention a few. Each of the above factors has influence, direct or indirect, on the accounting system. For the sake of volume, we, however, analyse changes in the first two groups using Verma and Gray (1998) framework.

The Source Phase

In the source phase, factors or events causing changes are known as change stimuli. These factors are usually exogenous, coming from outside the accounting system.

The establishment of accountancy boards, adoption of industrial policies, setting up of Central Public Enterprises (CPEs), the enactment of Companies Act 1956 (based on the recommendations of the Bhaba Committee) are some examples of events stimulating accounting changes in India. In a developing country, accounting plays an important role in resource allocation and planning and in ensuring effective utilisation of resources to accelerate the pace of economic development. Therefore, various measures have been taken by the government since independence to encourage economic development and these also helped developments in the accounting system. These have included the establishment of the Industrial Finance Corporation in 1948 to meet the growing needs of industrialisation, the establishment of the Institute of Chartered Accountants of India, a professional accounting institution in 1949, the enactment of the Companies Act in 1956 and the adoption of the Industrial Policy Resolution. These were not isolated events. Instead, they were part of an organised effort by the Indian Government to ensure the country's economic development and this also included the development of accounting and auditing systems.

The efforts taken by the Government for economic changes were also linked to social pressure for change. The people of India immediately after independence expected that the native government would take care of their well-being far better than the British raj and that organised efforts would be taken by the government to fulfil their expectations of a better life through the development of the economy and reduction of poverty. Thus, changes that occurred in the accounting profession and accounting systems in India after independence were due to events outside the accounting system many of which were linked to initiatives taken by the Government of India for the development of its economy. These events fall within the source phase of the framework of McKinnon and Harrison (1986), and Verma and Gray (1998).

The Diffusion and Reaction Phases

In the diffusion phase, change is dispersed within the accounting system. The diffusion phase consists of intra-system activity (i.e. activity between different components of the accounting system) and trans system activities (i.e. activity between the accounting system and its neighbouring system). In India, the main regulatory institutions within the accounting system are the Ministry of Company Affairs, the Government department in charge of corporate affairs including accounting and the professional accounting bodies, the Institute of Chartered Accountants of India (ICAI) and the Institute of Cost and Works Accountants of India (ICWAI). Trans-system activity in India is expected to occur between the legal system, the parliamentary system, the corporate system, the financial system and the international system (accounting related). In the reaction phase, changes are modified subsequent to the initial change and this phase determines the final outcome of the change. Again, the reaction phase consists of both intra-system activity and trans-system activity as outlined above.

Some examples of important accounting changes include the promulgation of the Companies Act, 1956, which included key accounting regulations, the implementation of a standard setting process by the Institute of Chartered Accountants of India in 1977, the involvement of the public sector in accounting and the involvement of financial institutions in accounting. Only two are briefly outlined below and the potential of the Verma and Gray framework in the analysis of these changes is indicated.

(a) The Companies Act, 1956

In 1956, the Government of India passed the Companies Act, 1956 based on the recommendations of the Bhaba Committee. Although the Companies Act, 1956 was based on the British Companies Act, 1948, many provisions were incorporated in the Act to suit the Indian conditions. For example, the Act required companies to prepare a balance sheet in the prescribed format and included a list of items which needed to be included in the profit and loss account. The Companies Act was initiated by the Government in the source phase to facilitate economic and social development. The Act was promulgated using the parliamentary process, preceded by a Government initiated review of the Companies Act 1936, the Act extant at independence, in the diffusion phase of the change. Both intra-system activity with Government involvement (the Department of Finance and the Department of Company Affairs) and the ICAI and trans-system activity with the corporate sector, employee representatives, financial institutions, tax authorities all being involved in the review of the Companies Act, 1956 and the parliamentary process, were seen in this phase of the promulgation of the Companies Act.

In the reaction phase, changes have been made to the Companies Act 1956, the first of which took place in 1957 and involved a Government initiated review of the Companies Act, 1956 (the Shastri Review Committee) and the latest of which, the Companies Bill 2010, which is still being considered. Some of the key changes to the Companies Act, 1956, which were implemented due to changes in economic and political conditions, are outlined below:

1959	Review of Companies Act, 1956, including some changes to the accounting provisions of the Companies Act, 1956
1965	The requirement for maintenance of cost accounting records for certain classified companies and cost audit thereof introduced into the Companies Act, 1956
1974	Disclosure of names of employees drawing salary in excess of a specified amount introduced into the Companies Act, 1956
1979	Introduction of the vertical from as an alternative to the T form of balance sheet and increased disclosures in Director's Report
1988	Additional disclosures on research and development and conservation of energy added to the Companies Act, 1956
1998	Buy back of shares
1998 to 2000	Disclosure of accounting policies and compliance with accounting standards; Powers and duties of auditors to give opinion re. compliance; Setting up of Audit Committee; Introducing Director's Responsibility Statement regarding preparation and presentation of financial statements; Setting up a National Advisory Committee on Accounting Standards (NACAS) to advise the Government on the formulation of accounting standards.
2010	Companies Bill 2010 if enacted will provide for basic principles for all aspects of internal governance of corporate entities and framework for their regulations.

Both intra-system activity and trans-system activity were seen in the reaction phase, as for the diffusion phase. Intra-system activity is seen between the Ministry of Company Affairs in the Indian Government and the professional accounting bodies and trans-system activity between other parties interested in the changes such as the corporate sector, tax authorities and financial institutions within the parliamentary system used to promulgate the above changes. The prevailing corporate environment in the world motivated the Indian

Government to legislate several important provisions to improve transparency and accountability of the corporate sector in India. Indeed, each of the changes to the Companies Act, 1956 could be analysed using the framework to provide an insight into the influence of culture on accounting change.

(b) Standard Setting by the ICAI and Convergence with IFRS

The ICAI formed its standard setting body known as the Accounting Standards Board (ASB) in 1977. In the source phase, the ICAI were influenced by the International Accounting Standards Committee (IASC) i.e. activity from outside the accounting system in India created the need for the introduction of standard setting in India, a key change to the Indian accounting system. In the diffusion phase, the ICAI set up the ASB in 1977 and in 1979, the ASB issued a Preface to the accounting standards it intended to promulgate, followed by its first accounting standard, Accounting Standard 1 (AS I) on disclosure of accounting policies in the same year. In the reaction phase, from 1979 to date, the ASB has promulgated 32 standards and, along with the Companies Act, 1956, the accounting standards form the basic framework for measurement, valuation and reporting of an enterprise. The SEBI played an important role as the capital market regulator in 2000's in enhancing the pace of standard setting in certain key areas to make Indian corporate financial reporting internationally competitive. Accounting standards are very critical for accounting and reporting in India as in many other countries.

Initially, the Indian accounting standards, which have been predominantly based on the relevant standards issued by the IASC, were recommendatory in nature and hence non-enforceable. Once awareness had been created amongst the preparers of accounts, all of the standards have been made mandatory over time. The Companies Act provided the necessary back up for enforcing compliance. Foreign investors are more concerned with the high quality of corporate financial information on a uniform basis. Consequently, ICAI joined the global convergence movement by deciding converge of Indian Accounting Standards with IFRS for different enterprises in four phases to start from 1.4.2011. The Institute followed the Australian model by incorporating required changes in Indian Accounting Standards (Ind.AS) compatible with relevant IFRS. The first phase of convergence is shifted to 1.4.2012 pending concurrence from the Ministry of Finance (Taxation Department). The above professional activities have been in keeping with the demand from the users of accounts for high quality reliable and comparable accounting information regarding corporate enterprises. Thus, the professional activities of the ICAI have influenced greatly the changes in accounting in the corporate sector in India. In this change, intra-system activity has been important in the implementation of the standard setting process. Trans-system activity with the involvement of the corporate sector and government departments such as the tax department who were involved in the due process standard setting system of the ICAI has been equally important along with intra-system activity in this change.

5. CONCLUSION

Following Verma and Gray, two important changes have been analysed in some details in India showing the potential of the framework in analysing specific changes to the accounting system. The exploratory framework has been found suitable for historical analyses of the influence of culture on accounting and reporting system in India.

The framework now needs to be used to conduct in-depth analyses of different other accounting changes in India. Indeed, since culture is subject to change over time, many more accounting changes are likely to take place in response to cultural changes in India. The development of the capital market, expectations for transparency in corporate accounting, mergers and acquisitions, greater awareness for environmental protection, making the company law keep in tune with international practices, convergence of Indian Accounting Standards with IFRS, corporate governance, increasing operations in foreign markets, are some likely events which will lead to consequential changes in accounting and reporting in India in the years to come and need to be investigated, in more details.

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EFFECT OF MERGERS ON FINANCIAL PERFORMANCE: A STUDY OF INDIAN CORPORATE

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ABSTRACT

During last decade in India we have seen significant growth in corporate mergers and acquisitions. Motives behind mergers are to create synergy. In the present research an attempt has been made to study the impact of mergers on the shareholders value. This study includes companies which have undergone merger during the period 1st April, 1999 - 31st March, 2000. , There are about 196 merged companies in India during above period and we have selected 56 firms for the research to examine pre and post merger performance of firms covered under the study. The result suggests that firm's shareholders value creation is highly dependent on Operating expenses, Profit margin, ROCE and Expense ratio. The inter company and inter industry analysis results indicate there is no positive impact of mergers on shareholder value creation.

KEYWORDS: Mergers and Acquisition, Financial Performance, Indian Corporate.

I. INTRODUCTION

The principal factors behind the corporate restructuring activity in India have been the policy changes that were announced in the form of economic reforms. These include the removal of restrictions on corporate investments and growth contained in the Monopolies and Restrictive Trade Practices (MRTP) Act, extensive trade reforms involving lowering of tariff and removal of physical barriers on imports, financial sector reforms permitting public sector banks and financial institutions to tap capital markets, a policy to encourage the inward flow of foreign direct investment and foreign institutional investment.

Statement of the Problem

Till some time back, in India, mergers and acquisitions (M&A) were the words that used to evoke curiosity in the minds of general public and hostile reactions in the business world. The number of cases of M&A were few and far between. Mostly, the control of companies vested with promoters and financial institutions. Mergers have increased considerably in 1990s, indicating that they are being accepted as a vital means for corporate restructuring and redirecting capital towards efficient management. The momentum is coming from the financial institutions as well since they no longer protect existing owners

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from takeover bids. Getting unfettered from the rigid shackles of government control and exposed to market forces, the corporate India will now have to chalk out and carry through long-term strategies to enhance competitiveness and sustainability. M&A offer, inter-alia, and obvious strategy for this purpose. The prime motives behind M&A are: (i) rectifying the distortions of the past where growth and diversification were led more by the ability to curry favour with the authorities than by the virtues of value creation; (ii) consolidation of small and fragmented players; (iii) compulsion to become world sized because of globalization of the economy, requiring corporate to focus their efforts on their areas of core competence. Since there is very little scope for individual companies to learn from its own 'past' experience as M&A is a sporadic event, then, how does an acquirer determine whether or not a planned acquisition will prove beneficial? The rule of thumb is to ascertain whether there is likely to be any economic gain through merger.

Post-M&A economic gain or synergy will be generated only if the two companies are worth more together than apart. The basic motives of M&A can then are understood as an attempt to create value. The basic equation for synergy can be written as given below:

Synergy = Post-merger combined value of company A&B minus the sum of the pre-merger values of company A and company B separately.

Only if the synergy is positive, will there be an economic justification for the merger. It is important to study whether companies involved in mergers have become more profitable and what effects mergers have had on the wealth of shareholders of the companies involved in M&A.

Literature Survey

Studies of the post-merger performance usually follow either of the two general approaches: share-price analysis or analyzing the operating performance. Empirical research on share-price performance suggests that anticipated mergers gains are not accomplished. The acquiring firm generally earns positive returns prior to announcements, but less than market portfolio in the post-merger period (Servaes, 1994; Bhagat, Shleifer and Vishny, 1990; Asquith, 1983).

Ravenscraft and Scherer (1987) examine the target line of business performance using operating earnings. They find no strong evidence of improvements in performance for these target lines of business after merger. Their analysis of merger effect on regression of profits to norm shows that regression to norm exists and is faster for merging firms as compared to the non-mergering firms. They conclude that acquisition activity lowers profitability and that part of this was due to regression to norm from unsustainably high pre-merger performance.

Healy, Palepu, and Ruback (1992) integrate accounting and stock return data in a consistent form to permit richer tests of corporate control theories. They find a strong positive co relation between post-merger increase in operating cash flows and abnormal stock returns at merger announcements including those expectations of economic improvements explain a significant portion of the equity revaluation of the mergering firm.

Studies of mergers in India are few and have stopped at comparing pre-merger and post-merger performance using a case by case approach (Kaveri, 1986) or a general description of mergers and takeovers and their accounting framework (Kumar and Parchure, 1990).

Ghemawat and Ghadar (2000) have found in their studies that the rush towards huge mergers is based on a faulty understanding of economics and that there are better ways to address globalization.

Venkiteswaran (1997) has analyzed the emerging scenario in the context of restructuring corporate India. Mehta and Samanta (1997) have provided a comprehensive framework for mergers in their study "Mergers and Acquisitions: Nature and Significance."

Yadav et al. (1999) conducted a study on Profitability of Mergers - Some selected cases. In his study they have studie the four merger cases. They studied pre and post merger various profitability ratios of selected corporates. Results of study indicate that mergers give positive synergies to corporate.

Pawaskar (2001) studied the impact of mergers on corporate performance by comparing the post-merger performance of the acquirer with its pre-merger performance, taking a sample of 36 cases of merger between 1992 and 1995. The regression results in the study showed that there are no significant differences in the financial characteristics of the two firms involved in mergers.

In his research study, Pandey (2001) has analyzed the stock price performance of target firms in the context of change in management control in the case of takeover announcements and has shown that the target firm valuations increase in the run up to announcement.

Swaminathan (2002) has conducted two studies with five corporate mergers to identify the effect of mergers on corporate performance. She concludes in her first study that several mega-mergers in the Indian scenario show that most of them have succeeded in achieving their financial objectives. Conclusion of her second study was that in first part of my analysis on Indian M&As. show many realized operational synergies. But an EVA study shows that in terms of delivering returns matching market expectations, the mega-mergers of the 1990s did not quite work out. But not all M&As improved shareholder returns.

Alternative prediction model for corporate mergers and acquisitions used by Panigrahi (2004) in his research is using 11 variables. The result of study has classified 41 out of 46 targets of estimation sample and 775 out of 1000 non-targets.

Mantravadi and Reddy (2009), have analyzed operating performance and types of merges in Indian industry using the data of 1991-2003 of 96 merges and finds that there are minor variations in terms of impact on operating performance following mergers for different merger types in India.

Those studies conducted by earlier researchers are not consistent. Most of the studies are conducted after the liberalization policy adopted by India. Obviously all the study is limited to small group of organizations. Even major studies have focused on only one or two aspects of the merger. So, there is a need to conduct a comprehensive study on effect of the Mergers on Shareholder Value in India.

II. RESEARCH OBJECTIVES AND METHODOLOGY OF THE STUDY

Objectives

The objective of the present research study was to analyze post -merger operating performance and to study the effect of mergers on the financial performance.

Hypothesis of the Study

To accomplish the objectives of the study, the following null hypotheses have been developed for empirical testing:

H.1 Mergers and acquisitions do not result in value addition to existing shareholders.

H.2 There is no sufficient difference between pre- and post-merger performance of merged companies under the study period.

The Sample & Data Collection

This study includes companies which have undergone merger during the period 1st April, 1999 - 31st March, 2000. The empirical analysis of all individual merger events has been carried out pre-merger and post- merger to give a somewhat clear picture of their success or failure. There are about 196 merged companies in India during above period. Out Of which the sample consists of 256 selected merged manufacturing companies for which data available for the entire period of the study.

The financial and non-financial data used in the study has been mainly drawn from Centre for Monitoring Indian Economy (CMIE) 'PROWESS" and Capitaline Database of Capital Market, which is also considered as the most reliable Indian corporate database. Prowess contains a highly normalized database for over 13000 companies in India. This database is supplemented with powerful analytical software tools to enable extensive research.

Data Analysis

This study has made the following analysis in terms of the objectives:

Post-Merger EVA Analysis

The onset of liberalization in the last ten years has shifted the focus of corporate goals to enhancing shareholder value. So, post-merger analysis of merged companies has been carried out in terms of value addition to shareholders. For this purpose, two methods of measuring shareholder value have been employed. Firstly, broad measures comprising the value added twins namely, Economic Value Added (EVA) and Market Value Added (MVA) and secondly, the traditional measures of Return on Net worth (RONW) have been applied.

EVA, a new performance metric popularized by Stern Stewart of U.S. has started gaining popularity as a superior tool for measuring corporate performance. EVA indicates the amount of economic value created in any single accounting period and is simply stated as the amount a company earns in excess of its cost of capital.

EVA = Net Operating Profits After Taxes but before interest — Cost Of Capital Employed
= NOPAT - COCE

Where, NOPAT - Profit after tax after subtracting tax adjusted interest

COCE - Weighted average cost of debt and equity capital X capital employed

While EVA measures shareholder value addition in terms of operating performance, its twin measure, MVA measures the markets' assessment of firm's value.

MVA = Market value — Capital employed of company

The relatively narrower measure of shareholder value creation is Return on Net worth (RONW) which is profit after tax divided by shareholders wealth in the company i.e. paid up capital + free reserves. Less fictitious assets, if any This measure nets out the recommitted payment obligations to all classes of creditors and focuses only on wealth created for residual claimants

Broadly,

$$RONW = \frac{\text{Profit after tax}}{\text{Net Worth}} \times 100$$

$$= \frac{PAT}{NW} \times 100$$

For this purpose, absolute EVA and MVA data have been converted in to relative figures using following formula:

$$EVACE = \frac{EVA}{CE} \times 100$$

Where, EVACE - Economic Value Added as a percentage of capital employed.

EVA - Economic Value Added

CE - Capital Employed

Model Formulation

In the present research to study the impact of merger on firm's performance, the regression analysis is also carried out for pre merger and post merger performance of sample companies.

Pre-Merger Model

$EVA = \alpha_i + ß_1 DE_{i,t} + ß_2 CR_{i,t} + ß_3 GR_{i,t} + ß_4 OE_{i,t} + ß_5 PM_{i,t} + ß_5 ROCE_{i,t} + ß_6 ER_{i,t} + ß_7 RONW_{i,t} + ß_8 SG + ß_9 BIFR + \bullet_{i,t}$

Post-Merger Model

$EVA = \alpha_i + ß_1 DE_{i,t} + ß_2 CR_{i,t} + ß_3 GR_{i,t} + ß_4 OE_{i,t} + ß_5 PM_{i,t} + ß_5 ROCE_{i,t} + ß_6 ER_{i,t} + ß_7 RONW_{i,t} + ß_8 SG + ß_9 BIFR + \bullet_{i,t}$

Where, DE = Debt Equity Ratio
CR = Current ratio
GR = Gearing Ratio
OE = Operating Expense
PM = Profit Margin
ROCE = Return on Capital Employed
ER = Expense Ratio
RONW = Return on Net Worth
SG = Firm Acquired by Same Group
BIFR = Acquired firm was under BIFR
T = Period
α is intercept, ß1, and ß2 are regression coefficients, and • is the error.

III. EMPIRICAL ANALYSIS

Regression Analysis

In order to analyze data of post and pre merger period a statistical tool is useful and provides better understanding. To study the impact of merger on shareholders value creation we have carried out the regression analysis on Indian corporate sector.

Pre-Merger Model

$$EVA = \alpha_i + ß_1 DE_{i,t} + ß_2 CR_{i,t} + ß_3 GR_{i,t} + ß_4 OE_{i,t} + ß_5 PM_{i,t} + ß_5 ROCE_{i,t} + ß_6 ER_{i,t} + ß_7 RONW_{i,t} + ß_8 SG + ß_9 BIFR + \bullet_{i,t}$$

Post-Merger Model

$$EVA = \alpha_i + ß_1 DE_{i,t} + ß_2 CR_{i,t} + ß_3 GR_{i,t} + ß_4 OE_{i,t} + ß_5 PM_{i,t} + ß_5 ROCE_{i,t} + ß_6 ER_{i,t} + ß_7 RONW_{i,t} + ß_8 SG + ß_9 BIFR + \bullet_{i,t}$$

Where, DE = Debt Equity Ratio
CR = Current ratio
GR = Gearing Ratio
OE = Operating Expense
PM = Profit Margin
ROCE = Return on Capital Employed
ER = Expense Ratio
RONW = Return on Net Worth
SG = Firm Acquired by Same Group
BIFR = Acquired firm was under BIFR
T = Period
α is intercept, ß1, and ß2 are regression coefficients, and • is the error.

Table 1
Result of Regression Analysis

Sr. No.	Independent Variables	Dependent Variables	
		Pre Merger	**Post Merger**
1	Debt Equity	-1.20 (-0.28)	-2.189 (-1.131)
2	Current Ratio	-5.63 (-0.92)	-0.756 (-0.176)
3	Gearing Ratio	0.25 (1.43)	0.077 (0.505)
4	Operating Expenses	0.06 (14.69)*	0.097 (18.518)*
5	Profit Margin	12.53 (0.46)	-150.027 (-4.083)*
6	ROCE	125.69 (2.26)**	270.153 (3.755)*
7	Expense Ratio	-4.79 (-23.50)*	-29.135 (-29.175)*
8	RONW	-0.02 (-0.22)	-0.027 (-0.431)
9	Same Group	-6.73 (-0.74)	-5.600 (-0.520)
10	BIFR	8.01 (0.76)	28.646 (2.198)
11	R^2	0.86	0.87
12	Adj. R^2	0.85	0.86
13	F	92.99*	140.99*

Note:
1. t-statistics are given in parenthesis;
2. * denotes significant at 99% level of confidence.
3. ** denotes significant at 95% level of confidence.

Looking at empirical results we can say that expense ratio of the firm is significantly and negatively related to pre and post merger's share holders value creation. It means higher expenses lead to lower share holder's value which is according to the theory of finance. We also find that operating expenses of the firm is positively related to EVA and also significant at 1% level in firm's pre and post mergers performance. ROCE of the firm is significantly also positively correlated to EVA in pre and post mergers financial performance of firm. While Debt equity, Current Ratio, and RONW are negatively correlated with shareholders creation capacity of the firm. It can be said that increase in Debt equity, Current Ratio, and RONW will lead to decrease in EVA. While evaluating the impact of acquirer of firm and scheme of merger as dummy variable are not significant. But acquirer in same group is negatively correlated with EVA.

In pre-merger regression analysis results shows that the value of R^2 is 0.86, which shows that the sample regression explain 86% of aggregate data. The overall model is also significant with adjusted R^2 value of 0.85. So, it can be concluded that the model is applicable to Indian corporate.

Regression result of post merger indicates the value of R^2 and adjusted R^2 value are 0.87 and 0.86 which is significant at 1% level. So model is fit for study.

The classical finance theory said that firm's shareholders value creation is based on firms earning ability and firms return on its net worth. On the basis of our regression research we have proved that the firm's shareholders value creation is highly dependent on Operating expenses, Profit margin, ROCE and Expense ratio.

V. CONCLUSIONS & POLICY IMPLICATIONS

In case of any business shareholders value maximization being recognized as the most important goal, performance evaluation of fifty six selected companies which have undergone mergers during the 1999-2000 has been done using value added metrics EVA and MVA and the traditional value added measure metric RONW. These results are also corroborated by correlation co- efficient calculated between these measures for all industries separately. In industries like steel, engineering, tea and coffee shows significantly high correlation has been revealed between the new values added metric EVA and traditional metric RONW. For other industries this relationship is low and insignificant. As far as association between economic efficiency of industry and its market assessment is concerned, in case of industries like chemical, petrochemicals, electric, electronics and computer industries it has emerged significant. For the rest of the industries economic performance does not seem to drive market value. However, no significant correlation was observed between MVA and RONW in most of the industries.

Future Scope of Research

The present study has focused the effect of mergers on shareholders value. Further research in this area could be an extension of the present study, by types of mergers and its impact on shareholders value and firm operating performance. In India during last decade many bank mergers has taken place so comprehensive study can be also conducted to analyze impact of mergers. The study has assessed success or failure of mergers in financial terms. Human aspect of mergers has not been touched. Gauging the success of mergers through this aspect could be another area of research.

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AUDITORS PERCEPTION TOWARDS INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): BENEFITS AND KEYCHALLENGES

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ABSTRACT

Recent years have seen major changes in financial reporting worldwide. Most obvious is the continuing adoption of IFRS worldwide. Many territories have been using IFRS for some years, and more are planning to come on stream from 2011. The next wave of transitioning countries includes Korea, India, Japan, South and Central America and Canada. The key country in this regard but still something of any unknown quantity is the US. The decision about adoption of IFRS in the US is still to be taken, although many US companies are acting as if it will definitely happen. Despite this, the likely adoption date is now more often quoted as 2016 rather than 2014. The authors have undertaken empirical study to analysis auditors perception towards IFRS. It is common sense that for any reform to succeed, the call for it should come from the market. The need should precede the deed. Looked at from this angle, it does appear that the International Financial Reporting Standards, or IFRS, which some 1,500 Indian companies should begin to follow from April 1, 2011, is an idea whose time has not yet come. The ushering in of IFRS, at least in India, is founded on a heap of myths: That all the countries in the world are following IFRS and India should not isolate itself. That IFRS will facilitate capital inflows. It is transparent and hence investor friendly.

OBJECTIVES OF THE STUDY

- To assess the benefits of Implementing IFRS.
- To analyze the problems faced by the companies while implementing IFRS.

METHODOLOGY

The study is conducted to assess and analyze the benefits and problems in implementing IFRS. Descriptive study is conducted and the primary data is used for the study.

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SAMPLING

Stratified random sampling method is used for selecting the sample.

Auditors in Coimbatore District	Practicing	Corporate	Non practicing
1080	360	300	420

AREA OF THE STUDY

Area of the study refers to Coimbatore district, it is the second largest city in Tamilnadu. It is one of the most industrialized cities in Tamil Nadu.

TOOLS FOR ANALYSIS

- **Garret Ranking**

Garret ranking technique is used to find out the most significant factor which influence the auditors while convergence from Indian GAAP to IFRS.

- **Factor Analysis**

Factor analysis is a form of exploratory multivariate analysis that is used to either reduce the number of variables in a model or to detect relationships among variables.

The Indian accounting standards (IAS) have conceptual differences with IFRS, keeping the extent of difference between existing IAS and the corresponding IFRSs, conversion process would need careful handling, By introducing a new company law, the Indian government has initiated the process to amend the legal and regulatory framework, much needed to adopt IFRS. The actual conversion would involve impact assessment, revisiting accounting policies and thereafter changing the accounting and operational systems (including ERP) in order to be fully compliant with IFRS.

The institute of chartered accountants of India is laying down the strategy for IFRS convergence and adoption. The adoption date is indicated as April 1, 2011, however, it is worthwhile to note that IFRS requires that previous year's comparatives are presented alongside. Therefore, when an entity follows IFRS for the first time in its financial statements for the year ending March 31, 2012, it will need to provide the previous year's comparative i.e., for the financial year ending March 31, 2011

ROADMAP FOR CONVERGENCE

A meeting of the Core Group constituted by the Ministry of Corporate Affairs for convergence of Indian Accounting Standards with International Financial Reporting Standards (IFRS) from the year 2011 was held on 11th January, 2010The Group agreed that in view of the roadmap for achieving convergence, there will be two separate sets of Accounting Standards u/s Section 211(3C) of the Companies Act, 1956. First set would comprise of the Indian Accounting Standards which are converged with the IFRSs which shall be applicable to the specified class of companies. The second set would comprise of the existing Indian Accounting Standards and would be applicable to other companies, including Small and Medium Companies (SMCs). The first set of Accounting Standards (i.e. converged accounting standards) will be applied to specified class of companies in phases

Table1.1
Roadmap for convergence

PHASE - I Conversion of opening balance sheets as at 1st April, 2011, if the financial year commences on or after 1st April, 2011	Companies which are part of NSE - Nifty 50
	Companies which are part of BSE - Sensex 30
	Companies, whether listed or not, which have a net worth in excess of Rs. 1,000 crores
PHAES - II Conversion of opening balance sheets as at 1st April, 2013, if the financial year commences on or after 1st April, 2013	Companies, whether listed or not, having a net worth exceeding Rs.500 crores but not exceeding Rs. 1,000 crores
PHAES - III Conversion of opening balance sheets as at 1st April, 2014, if the financial year commences on or after 1st April, 2014, whichever is later.	Listed companies which have a net worth of Rs. 500 crores or less

Table1.2
Banking companies

Conversion of opening balance sheets in compliance with converged Indian Accounting Standards as at	Class of companies
April 1, 2013	All scheduled commercial banks and those urban co-operative banks (UCBs) which have a net worth in excess of Rs, 300 crores
April 1, 2014	Urban co-operative banks which have a net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores

AUDITORS

The total auditors in Coimbatore district is 1080, Out of this only 300 of them are practicing. Rests of them partly employed in a concern and some of them are having their own consultancies. The auditors are classified in to three groups namely practicing, corporate (employed), and consultancies. The auditors taken for the study is 65. Stratified Random sampling method has been adopted for selecting the sample. The majority of the auditors belong to the age group of 40-50 years and most of them are male and their working experience is 20 years and above and most of them are practicing.

GENDERWISE AWARENESS ABOUT IFRS

Table 1.3
Awareness and gender wise classification of the Auditors

SEX	Aware of IFRS	Total	
		Yes	No
Male	39(78)	11(22)	50(100)
Female	12(80)	3(20)	15(100)
Total	51	14	65

Source: Primary data (The values in brackets are per cents)

Table 1.3 explains the percentage analysis of sex wise awareness in IFRS. The above table emphasizes that out of 50 male auditors 39 (78 per cent) auditors are aware about IFRS and out of 15 female auditors 12(80 per cent) auditors are aware about the IFRS and remaining auditors are not aware of IFRS. It is inferred from the above table that female auditors are having more awareness than the male auditors.

PROFESSION WISE CLASSIFICATION

Study of the selected auditors based on their profession

Table 1.4
Profession Wise Classification

Profession	Auditors	Percentage
Practicing	36	55.38
Corporate	12	18.47
Consultancy	17	26.15
Total	65	100

Source: Primary Data

Table 1.4 gives the percentage analysis of profession wise classification of selected auditors. It is observed from the above table the majority of the selected auditors that is 36(55.38 per cent) are in the practicing category, 17 (26.15 per cent) of the auditors in consultancy and 12 (18.47 per cent) of the auditors in corporate. It is inferred that the majority of the auditors are practicing.

AUDITORS AWARENESS IN CONVERGENCE FROM INDIAN GAAP TO IFRS

To assess the awareness level of the selected auditors regarding various issues related to convergence in IFRS. The level of awareness is classified as highly aware, aware, neutral, not aware, and highly not aware. The level of awareness of the auditors are given in the table 1.5.

Table 1.5
Auditors Awareness in Convergence from Indian GAAP to IFRS

Issues	HA	A	N	NA	HNA	Total
Convergence to IFRS	23 (35.38)	25 (38.46)	2 (3.07)	5 (7.69)	10 (15.38)	65/100
Date of implementation	26 (40)	23 (35.38)	2 (3.07)	4 (6.15)	10 (15.38)	65/100
Format of IFRS	7 (10.76)	35 (53.84)	9 (13.84)	8 (12.30)	6 (9.23)	65/100
Roadmap framed by MCA	18 (27.69)	31 (47.69)	2 (3.07)	6 (9.23)	5 (7.69)	65/100
Benefits of convergence	1 (1.53)	36 (55.38)	12 (18.46)	2 (3.07)	14 (21.53)	65/100
Workshop conducted by ICAI	14 (21.53)	26 (40)	7 (10.76)	12 (18.46)	6 (9.23)	65/100
IFRS statements	6 (9.23)	26 (40)	13 (20)	13 (20)	10 (15.38)	65/100
Key challenges faced while implementing IFRS	-	20 (30.76)	14 (21.53)	16 (24.61)	15 (23.07)	65/100
Adoption made by other countries	5 (7.69)	16 (24.61)	15 (23.07)	13 (20)	6 (9.23)	65/100

Source: Primary data (The values in brackets are percentage)

Table 1.5 reveals the percentage analysis of auditors awareness regarding convergence from Indian GAAP to IFRS. It is observed from the above table that 23(35.38 per cent) auditors are highly aware about convergence to IFRS. On the other hand, 15(23.07 per cent) auditors are highly not aware regarding key challenges faced while implementing IFRS

Key Challenges Faced by the Companies While Implementing IFRS

To identify the key challenges in IFRS, the factor analysis technique has been used. The 14 factors are identified namely F1, F2, F3……….F13 is given in the table 1.8 below.

KMO and Bartlett's Test of Sectors

Table 1.6
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.492
Bartlett's Test of Sphericity	Approx. Chi-Square	557.118
	Df	91
	Sig.	.000

Table 1.6 reveals Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) and Bartlett's test of sphercity have been applied, to the resultant correlation matrix to test whether the relationship among the variables has been significant or not as shown in table. The result of the test shows that with the significant value of 0.000 there is significant relationship among the variable chosen. KMO test yields a result of 0.492 which states that factor analysis can be carried out appropriately for these fourteen variables that are taken for the study.

Table 1.7
Reliability Coefficient of Sectors

No. of Cases	No of items	Alpha
65	14	.779

From above the table 1.7, it is observed that the reliability of coefficient alpha ( ) for the 65 cases of 14 items is .779 (scale range between 0.0 to1.0) which shows the reliability of the given factors.

Table 1.8
Rotated Factor Loadings on Key Challenges

	Factors					
Key challenges	**1**	**2**	**3**	**4**	**5**	**Communality**
Project planning & knowledge-K1	0.334	0.012	0.359	-0.243	**-0.665**	0.742
Skill resources availability for training-K2	-0.207	-0.076	0.373	**0.805**	-0.021	0.836
Need of the expert-K3	0.073	0.175	0.026	**0.873**	-0.062	0.803
Timeline for convention of project-K4	0.253	**0.784**	0.093	0.071	-0.278	0.769
Training the employees on system changes-K5	0.102	**0.656**	-0.174	0.604	0.206	0.878
Additional details required for disclosure-K6	**0.827**	0.263	0.165	-0.311	-0.132	0.894
High Expenses-K7	-0.272	0.216	**0.763**	0.142	-0.171	0.753
Data collection for analysis-K8	**0.928**	0.072	-0.023	0.028	0.079	0.874
Financial reporting procedures-K9	0.478	0.164	**0.719**	0.210	-0.133	0.834
Policy changes in IFRS-K10	**0.564**	0.068	0.162	0.354	-0.376	0.616
Develop of standard format for internal reporting-K11	0.327	0.102	**0.789**	0.016	0.321	0.844
Reporting of IPO-K12	0.054	0.191	0.146	-0.119	**0.798**	0.712
Modification of IT systems are costly-K13	-0.083	**0.786**	0.180	-0.106	0.392	0.822
Educating the users of financial statements-K14	0.172	**0.793**	0.250	0.158	0.147	0.767
Eigin Value	3.373	2.796	2.000	1.621	1.526	11.144
per cent of variance	25.945	21.506	15.382	12.471	11.737	87.042
Cum per cent of Variance	25.945	47.451	62.834	75.305	87.042	

Extraction method: Principal component analysis
Rotation method: Varimax with Kaiser Normalization

Table 1.8 demonstrates that the principal component analysis and rotated factor loading method is used for stimulating factors. From the above table, it is observed that out of 14 sectors, 5 factors are identified by the rotation method. The total percentage of variation in the factors show 87.042 per cent and total Eigen value of the factors is 11.315. The varimax rotation results are given in the table 1.8

Table 1.9
Clustering of Keychallenges into Factors

Factor	Challenges	Rotated factor loadings
I. Data analysis & Policy changes (25.945 per cent)	Additional details required for disclosure-K6	0.827
	Data collection for analysis-K8	0.928
	Policy changes in IFRS-K10	0.564
II. Educating & Training (25.506 per cent)	Timeline for conversion of project-K4	0.784
	Training the employees on system changes-K5	0.656
	Modification of IT systems are costly-K13	0.784
	Educating the users of financial statements-K14	0.793
III. High cost (15.382 per cent)	High Expenses-K7	0.763
	Financial reporting procedures-K9	0.719
	Develop of standard format for internal reporting-K11	0.789
IV. Expert person (12.471 per cent)	Skill resources availability for training-K2	0.805
	Need of the expert-K3	0.873
V. Project planning (11.737 per cent)	Project planning & knowledge-K1	-0.665
	Reporting of IPO-K12	0.798

Table 1.9 depicts that clustering of stimulating Key challenges in IFRS. From the above table, it is observed that the five factors were identified as being maximum per cent variance accounted. The four factors K6, K8 and K10 were cluster together as factor I and it is named as 'Data analysis & Policy changes'. It accounts 25.945 per cent of the total variance. Factor K4, K5, K13 and K14 are constituted as factor II and it is named as 'Educating & Training', It accounts 25.506 per cent of the total variance, Factor K7, K9, and K11 constituted as factor III and it named as 'High cost', It accounts 15.382 per cent of the total variance, Factor K2 and K3 are constituted as factor IV and the last factor K1and K12 constituted as factor V and it is named as 'Project planning', it accounts 11.737 per cent of the total variance.

The important key challenges which is faced by the Indian companies are given below

- Data analysis & policy changes
- Educating & Training
- High cost
- Expert person
- Project planning

BENEFITS DUE TO CONVERGENCE FROM INDIAN GAAP TO IFRS

To assess the benefits of implementing International financial reporting standards (IFRS), Garrett's ranking technique has been used, As per this method the auditors have been asked to assign the rank for all the factors and outcome of such rank has been converted into mean values and it is considered most important.

Table 1.10
Benefits due to Convergence from Indian GAAP To IFRS

S.No.	Factors	Score Total	Score Mean	Rank
1	The Investor	2743.75	43.55	5
2	The Industry	2856.25	45.34	4
3	Accounting Professionals	3768.75	59.82	2
4	The Corporate World	3943.75	62.60	1
5	The economy	2556.25	40.58	6
6	Managements	2518.75	39.98	8
7	MNC companies	3406.25	54.07	3
8	Promoters	2543.75	40.38	7

Table1.10 explains about Garrett raking analysis to assess the benefits of implementing IFRS. From the above table it is observed, out of eight given benefits in IFRS. 'The corporate world' has secured highest mean score and ranked first. The next highest mean score (59.82) 'Accounting professionals' ranked as second, and 'management' has secured least mean score (39.98) and stood last.

It is inferred from the above table that the corporate world is getting more benefits in convergence from Indian GAAP to IFRS.

CONCLUSION

The study reveals that the implementation of IFRS will more benefited to the corporate world and the accounting professionals, but the same time the Indian companies and the accounting professionals want to face some key challenges in their convergence process. It also comes to know that the auditors in Coimbatore district having the awareness regarding the implementation of IFRS. Transition to IFRS will not be a swift and painless process all parties concerned with financial reporting also need to share the responsibility of international harmonization and convergence.

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ACCOUNTING EDUCATION AND RESEARCH ISSUES AND CHALLENGES

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ABSTRACT

Identifying three major challenges viz.increased expectations of students,need for high quality of teachers and global competitiveness,the author stressed the need to strenthen theoritical base and to enhance quantitative\analytical skills of researchers.

The Major challenges before the Accounting and Commerce educational institutions are intense competition, demand for quality teachers and increasing expectation of the students.

CHALLENGE NO. 1 Greater competitiveness through Internationalization and multi campus model

Internationalization as a strategy for building reputation is gaining more prominence amongst Universities and colleges. This may range from establishing international collaborations for student/faculty exchange programs, joint degree courses, joint research projects and creating offshore campuses. Innovation universities planned by the Indian government and entry of foreign universities will change the existing education equilibrium in our country. The most affected by entry of foreign Universities is going to be the 'arts' courses, particularly, commerce and business education. Foreign Universities will be keen to offer B.Com, M.Com, BBA, MBA courses since these programmes do not require heavy capital investment unlike science, engineering / medical courses.

Competition and opportunity would compel institutions with resources to gain scale and move beyond their traditional markets and innovate the educational offerings. Multicampus models led by institutions like Amity, IBS and IIPM will continue to thrive. Even reputed institutions will be expanding. For example, Symbiosis is expanding and Narsee Moonjee are now at Bangalore. New age universities like the NIIT University, Vedanta University, Azim Premji University and Reliance University are also creating new standards of quality.

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CHALLENGE NO.2 Increasing Demand for high quality teachers

The Indian education sector is growing at a fast pace but the professionals including faculty and administrators are lagging behind both in quantity or quality. In the recent years, many of them have joined teaching profession not out of passion and choice, and hence lack commitment and interest to excel in teaching. The expansion plans announced by the Indian government and entry of many more private players would require faculty members and the greatest challenge to would be in developing quality teachers.

CHALLENGE NO.3 Increasing expectation of students

The student's expectations have increased with more opportunities in the competitive scenario and greater awareness. They expect more quality education and look for value for money. The major challenge will be to attract students to colleges and retain them in the Institute.

It is now appropriate for every University/College to develop a five year strategic plan to counter the competition, student's expectation and improving the quality of teachers.

Specifically, in the accounting domain, the Challenges are three fold with respect to the teachers:

A. Challenges in teaching- Expanding domain of the subject

The accounting domain has been expanding beyond expectation and the changes being brought in the context of globalization has made most of the existing teachers redundant without upgradation to the new and latest concepts.

Teachers who really enjoy teaching accounting subjects are hesitant integrating accounting education to a wide spectrum of changes in the economy such as financial reporting standards, Changing dynamics of banking operations- branch banking to universal banking, computerised auditing to electronic data processing, financial reporting to corporate governance, direct marketing to e-marketing and virtual marketing, globalisation of markets and international trade policy changes, Complexity due to simplification of direct and indirect taxes, moving from trading in stock market to treasury and bond market, commodities market and currency market and the complicated product - both for the teachers and students - are derivative products- beginning from stock derivatives to fixed income derivatives, currency derivatives, credit derivatives and commodity derivatives. Most of the subjects we teach now are not those we studied in our Undergraduate/Graduate programme. However, in the recent years faculty members are reluctant to venture into new subjects and get stuck up in a narrow boundary and restrict their growth.

B. Challenges in teaching- Use of technology and software packages for teaching

The pedagogy has changed from use of chalk and board to use of ppts, case exercises, and video films on topics and to other innovative ICT methods in teaching. The adoption of technology-enabled learning and smart classrooms will become the common scenario in commerce education and those who don't change will be out of the scenario in a very quick span. Use of various software packages to teach is another major hurdle many teachers face. The evaluation process is also changing to evaluating student's submission of assignments on the intranet, online quiz, etc.

C. Challenges in research

The quality of research done by a teacher enhances the teaching skills and their contribution to the subject. The quality of teaching is very much dependent on the quality of research done by a teacher, particularly, during his post-doc period. We have done enough of stereotype project pattern research in accounting and commerce and we need to move forward to more of high quality original research - We need to focus choosing problems based on research gap, and ensure there is contribution to existing literature either in terms of newness of the problem, measurement of variables or methodology used instead of just only looking at replicating work by changing the sample- district/sector, /industry/ executives/products. Many of us don't attempt to do something original because of fear of the unknown, difficulty of learning something new, fear of moving from the comfort zone. However, the joy is profound when one goes beyond these fears and start experimenting and exploring doing a high quality research. We have great talent and potential and I am sure each one of you here can do great research provided you are determined and work towards it. .

How do we handle these challenges? The best way to face competition is to enhance the quality of teaching and research skills of faculty members. What can be done to begin with?

Let us look at how the various subjects have grown in the accounting field:

- Book-Keeping, Financial Accounting, Advanced Corporate Accounting, Special Accounting-(Power sector, Banking, Insurance, etc.), Computerised Accounting, Financial Statement Analysis and Spreadsheet based Accounting & analysis, Cost Accounting, Management Accounting, and Strategic Cost Management.
- Auditing, Computerised Auditing, Information System & Auditing.
- Corporate Finance, Advanced Corporation Finance, Venture Capital & Private equity, Real estate Financing & Management, Infrastructure Finance, Entrepreneurial Finance, Strategic Finance.
- Investment Management - popularly known as Security Analysis and Portfolio Management, Financial services, Financial Markets and Institutions, Options and futures, International finance, Financial modeling, Risk Management, Credit Derivatives.
- Banking Law & Practice, Merchant Banking, Mutual funds, Insurance Management, Financial planning, Wealth Management.
- Marketing, Marketing research, Consumer Behaviour, Strategic Marketing, E-Marketing, Retail Marketing, Service Management.
- Social responsibility of business, Corporate governance, Business ethics.
- Direct and Indirect Taxes - I-Simplified but that is complicated.

Let us be open to these changes and choose areas of our choice and develop our knowledge with the development in the subjects instead of shying away from them. All things are difficult before it is easy but the joy on accomplishing it is boundless.

Specifically, what are the things that we can try:

A. At University/Department level

a. Update curriculum

b. Use innovate methods of teaching, create infrastructure, train faculty on new ICT.

c. Cluster/Collaborate for a specific purpose.

- Training on specific topics/Courses/skill set.
- Share resources, software, online access to journals, packages for e.g. at IITM-initially we used to subscribe for CMIE database process independently. But now we have consortia of all IITs & IIMs and we buy through the consortia and the cost has come down drastically.

d. Have tie ups with retail chain stores, banks, audit firms, Small and medium enterprises to work on live projects (involving faculty and students to develop confidence in applying concepts to practice.)

B. At Faculty level

a. Update knowledge - choose one/two new subjects and become an expert in it in 3-5 yrs.

b. Update skill set - choose a software package & spreadsheet platform to learn it & use it for teaching.

c. Read something new every day on the subject for at least 15 minutes on topics other than what you normally do - this is apart from preparing for the class.

C. What can be done on the Research front?

Shift away from doing research on topics such as problems of coir Industry/Software Industry/export Industry, problems of entrepreneurs/ Small scale industries in District A/ B, financial analysis of textiles industry, Banking Industry, Quality of work life, service quality in sector A/B.

These topics have been already researched extensively and are 30-40 years old.

What are the major differentiators of high quality research?

1. Originality of the problem
2. Scholarly/ Professional/ Industrial relevance/ has policy implication for regulators.
3. Innovation in concept measurement/methodology
4. Likelihood of the work passing through the test of time.

Think of new research issues and experiment yourself as a group to increase the impact factor and rating of our research publications.

How do we do it?

1. *Discuss a journal paper every week*

Each faculty can present a paper every week to the colleagues and have a discussion on how the work is related to a specific theory, what is the contribution of the study to existing literature, how the author has improved the work from previous studies.

2. *Critical Analysis of Literature*

Identify research problems based on research gap. Apart from looking at the findings of a study,

- Do a Critical analysis to explore potential limitation of methodology and data used in earlier studies
- How alternate theories reconcile with the findings of the study and bring out how your study can overcome the limitations/contribute to a theory.

3. *Strengthen theoretical base*

An indepth review of the underlying theories such as CAPM/Information Asymmetry Hypothesis/ Valuation models strengthens the foundation of research. Based on the area of focus/interest be thorough with the underlying theory and the pros and cons of the theory and the chronological order of work done on the applicability of the theory.

4. *Strengthen-your quantitative/analytical skills*

Most of the high quality researches have become very quantitative. Don't make the statistician/the quant person in your area become richer & richer at the cost of your ignorance. Learn the techniques and the use of the technique either individually/jointly and the effort you put gives you generous rewards in the future in your career.

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THE IMPACT OF VOLUNTARY CORPORATE DISCLOSURE ON ACCOUNTING EARNINGS: A STUDY OF INDIAN FIRMS

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ABSTRACT

Accounting Earnings is the important measurement of any corporate. In the present paper we have studies effect of disclosure of accounting information on Accounting Earnings. We develop a disclosure grid that we use to rate 81 firms listed on the BSE - 100 index between 2005 and 2009. We hypothesize that the decision to voluntarily disclose some information is a result of the assessment of the economic costs and benefits to be derived from this additional disclosure. Our results suggest that Indian GAAP firms use depreciation/provisions to smooth earnings. This relation is reduced for firms with high disclosure quality.

KEY WORDS: Voluntary Corporate Disclosure, Accounting Earnings, Indian Firm.

1. INTRODUCTION

Corporate voluntary disclosure plays a vital role in the earning quality of any corporate. The causes and consequences of voluntary corporate disclosure have been the object of considerable attention in the literature. However, most studies are conducted in the United States, a context in which high disclosure requirements severely constrain firms' flexibility in setting their disclosure strategy. Hence, there is only mixed evidence on the economic determinants and consequences of increased voluntary disclosure. In light of these limitations, recent studies focus on settings where it is possible to observe a large change in the disclosure policy or in which accounting rules and other regulations give managers more discretion in the choice of the information disclosed (e.g. Chau and Gray, 2002; Leuz and Verrecchia, 2000).

The rest of this paper is organized as follows: Section 2 discusses the theoretical framework and presents the research hypotheses, Section 3 details the methodology, Section 4 exposes the results and Section 5 contains the conclusion.

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2. THEORETICAL FRAMEWORK AND RESEARCH HYPOTHESES

A significant shortcoming of numerous empirical disclosure studies is the failure to address the endogenous nature of the disclosure quality decision. If researchers do not control for the determinants of disclosure policy, their inferences regarding the economic consequences of disclosure quality may be spurious (Cohen, 2003). Thus, we posit that corporate disclosure strategy affects disclosure quality. The following structural equations model summarizes the approach to be adopted in the empirical analysis:

Disclosure quality $_{it}$ =
f(Information costs, Financial condition, Control variables)$_{i,t}$ (1.1)

Earnings quality $_{it}$ =
f(Earnings target deviation, Disclosure quality, IAS/US GAAP, Control variables)$_{i,t}$ (1.2)

2.1 Economic Determinants

Information economics theory suggests that the decision to voluntarily disclose some information is (at least partially) a result of the assessment of the economic benefits to be derived from this additional disclosure by management. Since 2001, Indian firms are required to comply with either the Indian Accounting standards. The ICAI is the Indian accounting standard-setting body. Its recommendations are largely non-mandatory in initial stage and very general in their content and later on its became mandatory for all firms. The market forces and investor interests are expected to play a major role in the determination of a firm's accounting policies. Complying with IAS/IFRS forces Indian firms to increase their disclosure. As such, it has been shown that political costs and pressure from outside markets play a major role in the decision to voluntarily comply with IAS. Overall, we can argue that an important portion of the information that is normally considered as non-proprietary, such as the content of the notes to financial statements, becomes proprietary in the Indian environment. Consequently, the level of information costs to be incurred by shareholders a priori should be high. This in turn makes it easier to capture the relationship between voluntary disclosure and the latter costs. Thus, when a firm commits to increased disclosure it can be deemed to be because of the perceived potential advantage of reducing the transaction costs and minimizing adverse selection. This discussion allows us to draw the first research hypothesis:

H1: The level of information costs incurred by shareholders is positively related with the quality and quantity of information disclosed by Indian firms.

2.2 The Relationship between Voluntary Disclosure or IAS/US GAAP Compliance and Earnings Quality

According to the smoothing hypothesis, income smoothing occurs when the accounting components of earnings, i.e. accruals, are managed to reduce the variability of reported earnings around some level considered normal for the firm (Bartov, 1993; Leuz et al., 2003). Indian managers can benefit from a legal, regulatory and economic environment that allows, if not encourages income smoothing, they also are susceptible to increased pressures from domestic and foreign investors who require more transparency and accountability. According to Bhattacharya et al. (2003), income smoothing is associated with earnings opacity, reduces earnings informativeness, and ultimately results in an increase in the cost of equity capital, and a decrease in trading volume. Therefore, in a context where increased disclosure limits firms' ability to smooth earnings, we can expect a reduction in the income smoothing behaviour of more forthcoming firms. This allows us to draw the second research hypothesis (stated in the alternative form):

H2: The use of provisions to smooth earnings is negatively related to the quality and quantity of information disclosed by Indian firms.

Indian firms can also facilitate the detection of income smoothing by market participants if they comply with IAS/IFRS or US GAAP. Voluntary compliance with IAS/IFRS or US GAAP by Indian firms implies additional disclosure and renunciation of some discretion in accounting choices. Thus, consistent with the view that complying with international accounting standards is likely to improve earnings quality and force firms to be more forthcoming, our third research hypothesis is:

H3: The use of provisions to smooth earnings is reduced for firms complying with IAS/US GAAP.

3. METHODOLOGY

3.1 Sample

Sample firms are drawn from the BSE 100 Index, which comprises all the firms quoted on the BSE. All financial services firms are excluded because the financial industry is highly regulated and is subject to special disclosure requirements. Firms that were restructured or that ceased to be quoted during the period studied are also excluded. This results in a sample of 81 firms over the 2005-2009 periods, for a total of 408 firm-year observations. The annual reports are obtained from the respective companies' offices or from its websites. Financial data is obtained from the CMIE Prowess Database Software.

3.2 Models

3.2.1 Economic Determinants

The following model is used to assess the relationship between voluntary disclosure and information costs:

$$DISCORE_{i,t} = b_0 + b_1VOL_{i,t} + b_2DELTALEV_{i,t} + b_3FAMOWN_{i,t} + b_4INSTOWN_{i,t} + b_5CONOWN_{i,t} + b_6PERF_{i,t} + b_7LEV_{i,t} + b_8SIZE_{i,t-1} + b_9FLIST_{i,t} + b_{10}BIG4_{i,t} + b_{11}IASUS_{i,t} + YEAR_{i,t} + INDUSTRY_{i,t} + e_{i,t}$$

3.2.1.1 Dependent Variable Measurement

To determine the level of voluntary disclosure exhibited by Indian firms, we develop a coding instrument that measures both the quality and the quantity of information included in their annual reports. The disclosure index is developed using the information listed in the disclosure checklist. The contents of the annual report were examined and the scoring for the voluntary disclosures is done in the form of 1 and 0. If a disclosure item is present, then a score of (1) is given and if an item is not present then (0) is entered as the score. When a particular item was not applicable, the score of NA was entered. The voluntary disclosure index for each of the companies was computed as TVD/MVD where the TVD is the Total voluntary disclosure in proportion to the MVD, the Maximum voluntary disclosure possible. The dependent variable is the voluntary disclosure index computed.

3.2.1.2 Independent Variables Measurement Information Costs

Trading volume (VOL)

Trading allows for the release of private information to the market (Scott, 1994). It also creates a need for information for market participants who want to make an informed decision (Cormier and Magnan, 1999). By increasing their level of voluntary disclosure, firms can then reduce the need for investors to engage in the collection of private information. Trading volume is measured by dividing the average daily trading volume by the total number of shares outstanding. In accordance with hypothesis 1, trading volume should be positively associated with disclosure quality.

Financing needs (DELTALEV)

Security issuance engenders information needs from investors who need to assess the appropriateness of the issuing price (Lang and Lundhom, 1993; Gibbins et al., 1990; Scott, 1994). If the firm does not provide the necessary information, investors will then have to incur information costs to obtain it from other sources. It is difficult to obtain information about new financing. Therefore, we use year-to-year changes in the debt-to-equity ratio as a proxy for capital market reliance. Consistent with hypothesis 1, we expect a positive association between financing needs and disclosure quality.

Ownership structure (FAMOWN; CONOWN; INSTOWN)

The ownership structure of the firm can influence its disclosure strategy. Firms that are closely held, either by a single entrepreneur, a family group, or another firm, have less incentive to disclose proprietary information because the latter is already available to the owners (Chau and Gray, 2002). Three variables are used to characterize the ownership structure. Family ownership is the total percentage of shares held by family groups. Institutional ownership is the total percentage of shares owned by financial institutions, pension funds and other institutions. Finally, concentrated ownership is the total percentage of shares held by other blockholders. We expect a negative association between these three ownership structure variables and voluntary disclosure.

Control Variables

Accounting performance and leverage (PERF and LEV): According to Cormier et al. (2002), assessing the magnitude of potential proprietary costs associated with the disclosure of more private information is difficult because it requires the identification of all the parties that could use this information to the firm's detriment. Two variables are used to measure financial condition and to proxy for firms' ability to support proprietary costs: return-on-equity and leverage. We expect a positive association between stock market performance and voluntary disclosure, and a negative relationship between leverage and voluntary disclosure.

Firm size (SIZE)

Prior evidence on the relationship between firm size and the extent of voluntary disclosure consistently supports a positive association (e.g. Lang and Lundholm, 1993; Scott, 1994; Cormier and Magnan, 1999. We measure firm size as the log of total lagged assets. Consistent with prior findings, we predict a positive relationship between firm size and the extent of voluntary disclosure.

Foreign exchange listing (FLIST)

Indian firms that are listed on foreign exchanges are likely to be subjected to more pressure from capital markets. Consequently, these firms typically disclose more information to satisfy greater investor interest (Hope, 2003). As with Hope (2003), foreign exchange listing is measured as the weighted number of stock exchanges a firm is listed on. Listings on U.S. exchanges are given a weight of 1.5 whereas all other listings are given a weight of 1. We expect a positive relationship between this variable and disclosure quality.

Quality of audit (BIG4)

In a context of low mandated financial disclosure like India, we can expect the auditor to play an important role in improving firms' overall reporting strategies (Hail, 2002). Empirical findings suggest that firms reviewed by larger audit firms provide higher quality financial statements, ceteris paribus (Becker et al., 1998). We use a dichotomous variable taking the value of 1 if the firm is audited by a Big 4 firm and 0 otherwise to proxy for the quality of audit. We predict a positive relationship between this variable and disclosure quality.

IAS/IFRS or US GAAP compliance (IASUS)

Complying with IAS/IFRS or US GAAP is likely to force firms to disclose more information because these accounting frameworks are conventionally more informative and restrictive covering a much larger scope of accounting policies with higher disclosure requirements (Babalyan, 2001). We use a dichotomous variable taking the value of 1 if the firm is complying with IAS/IFRS or US GAAP and 0 otherwise. We expect a positive association between IASUS and the quality and quantity of information disclosed by Indian firms.

4. RESULTS

4.1 Descriptive Statistics

4.1.1 Disclosure Score

Table 1
Disclosure Score

Year	N	Mean	STD	MIN	MAX
2005	81	0.368	0.168	0.000	0.694
2006	81	0.381	0.164	0.000	0.694
2007	81	0.398	0.159	0.000	0.722
2008	81	0.410	0.161	0.000	0.722
2009	81	0.424	0.155	0.056	0.722

Table 1 presents the evolution of the disclosure score and its "quality" and "quantity" components over the period studied. Between 2005 and 2009, the mean aggregate score has increased from 0.368 to 0.424, showing a steady improvement in the extent of voluntary disclosure by Indian firms. Looking at the specific components of the score, the results show a similar trend, i.e. that the improvement in the aggregate score is caused by an increase in both the quality and quantity of information disclosed. Overall, these statistics seem to suggest that Indian managers are not indifferent to the pressures for greater transparency exerted by domestic and foreign investors.

4.2 Multivariate Results

4.2.1. Simultaneous Test of Disclosure Quality and Earnings Quality

Since we posit that a firm's disclosure quality affects earnings quality (smoothing) and stock market valuation simultaneously, we first assess whether or not endogeneity exists between these variables using the Hausman test. Using this procedure, we reject the null hypothesis of no endogeneity with respect to disclosure quality and the earnings smoothing variable ($t = -1.89$; $p < 0.100$). Therefore, it is important to control for firms' incentives to increase the disclosure of information in order to assess the value relevance of disclosure for stock market valuation.

4.2.2. Economic Determinants

The results of our first model are presented in column 3 of Table 2. The model is significant at 0.000 and presents an R^2 of 64.28%. Our results generally support hypothesis 1, suggesting that the quality and quantity of information disclosed by Indian firms is positively associated with the level of information costs. As predicted, the coefficient for VOL (0.357; $p<0.004$) is positive and significant. Therefore, Indian firms tend to voluntarily disclose more information in situations where investors are more likely to incur individual information collection costs. The coefficients for FAMOWN, INSTOWN and CONOWN are negative as predicted, although only CONOWN is significant (-0.814; $p<0.072$). Firms with concentrated ownership likely use some private communication channels to communicate proprietary information to their major institutional partners and blockholders.

Table 2
Regression Result

Variables	Predicted Sign	Disclosure Total Sample	Disclosure Indian GAAP	Disclosure US GAAP
VOL	+	0.357 (0.004)	0.587 (0.031)	0.411 (0.081)
DELTALEV	+	0.004 (0.215)	0.019 (0.412)	0.004 (0.412)
FAMOWN	-	-0.332 (0.311)	0.531 (0.612)	-1.123 (0.038)
INSTOWN	-	-0.822 (0.086)	4.521 (0.005)	-5.498 (0.000)
CONOWN	-	-0.814 (0.072)	-0.097 (0.527)	-0.846 (0.099)
PERF	+	1.043 (0.321)	15.398 (0.000)	-0.861 (0.0851)
LEV	-	-0.008 (0.345)	-0.021 (0.521)	0.001 (0.947)
SIZE	+	0.574 (0.000)	1.234 (0.000)	0.532 (0.000)
FLIST	+	-0.0765 (0.238)	-0.431 (0.621)	0.035 (0.509)
BIG4	+	1.985 (0.000)	2.363 (0.000)	0.865 (0.075)
IASUS	?	1.564 (0.000)		
N		405	355	50
R^2		64.28%	59.32%	61.23%
Chi^2 Probability		0.000	0.000	0.000

A firm's financial condition does not seem to be related to its decision to disclose information. The coefficient for PERF is positive and the coefficient for LEV is negative, but neither is statistically significant. Finally, we find a positive and significant association between the quality and quantity of information disclosed by Indian firms and SIZE (0.574; $p<0.000$), BIG4 (1.985; $p<0.000$) and IASUS (1.564; $p<0.000$). These findings are consistent with the previous literature. They suggest that larger firms that likely benefit from lower information preparation and disseminating costs voluntarily disclose more information. They also imply that auditors play a key role in ensuring that Indian firms disclose more than what is required under their largely unregulated environment. Finally, they support the assumption that firms complying with IAS/IFRS or US GAAP must increase their disclosure.

To assess the robustness of our results, we replicate the analysis using the two following recomputed dependent variables. First, consistent with Lang and Lundholm (1993), Botosan (1997) and Hail (2002), we compute rank scores calculated by dividing the rank of a firm's DISCORE by the number of firms included in the sample. This procedure allows for the study of the economic determinants of corporate disclosure quality by comparing firms with one another, instead of on an arbitrary base of 20 points. Second, we standardize the disclosure score by the year median. Our results remain virtually similar in both cases. Overall, as predicted by H_1, we conclude that Indian firms' disclosure strategy is associated with the level of information costs faced by investors.

5. CONCLUSION

This study investigates corporate disclosure quality in India, a country where firms face low-mandated disclosure requirements. Our analysis of the evolution of the mean disclosure scores between 2005 and 2009 shows a steady increase over the period, suggesting that Indian managers are not indifferent to the pressures for greater transparency exerted by domestic and foreign investors. Nevertheless, a great degree of variability is exhibited across firms. In this context, why are some firms disclosing more than required? As suggested by the information economics theory, we expect the level of voluntary disclosure to be positively related to the information costs borne by investors, and control for firms' ability to support proprietary costs. Our results generally support our hypothesis, suggesting that Indian firms assess the benefits of additional disclosure before effectively releasing more private information. Due to their unique legal, regulatory and economic environment, Indian firms have strong incentives to smooth earnings.

Scope of Future Research

Future research should examine other capital market consequences of increased disclosure by Indian firms. Potentially interesting research questions include the impact of greater transparency on the level of information asymmetries between managers and investors and the accuracy of analysts' forecasts. It would also be interesting to extend the sample to a longer period, and particularly beyond 2009 when Indian firms will be required to comply with IAS/IFRS.

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WHISTLE BLOWING AT CORPORATE GOVERNANCE - LESSONS TO LEARN FROM SATYAM'S EPISODE: A STUDY

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ABSTRACT

There is a strong incentive for corporate managements themselves to adopt transparent processes and good governance practices. They have sought to cultivate an image of being honest with their investors concerned about shareholder value maximization. This article describes various mechanisms of Corporate Governance, various reasons for failure of Corporate Governance in general and Corporate Governance failure at Satyam Computer Services. The reasons for Corporate Governance failure in such big organization and changes required to Corporate Governance after Satyam episode are the focus of this article.

Corporate Governance is a system of making directors accountable to stake holders for effective management of the companies, in the best interest of the company along with concern for ethics and values. It hinges on complete transparency, integrity and accountability of management that includes executive and non-executive directors. Its genesis can be traced to the internal audit function. Its importance was enhanced after the Stock Market Crash of 1987. Corporate Governance is an important concept to achieve corporate excellence. Managements should pursue the path of dynamic success to achieve corporate excellence. Ethics are important for dynamic success. Ethics of success is entwined in corporate governance. If ethics of success is ignored or sidelined, failure inevitably results. And failure increases costs considerably and erodes profitability. Dynamic success keeps on raising the expectations of everyone and managements face on-going challenges. As success depends on corporate governance, managements must believe in and practice good governance principles. Corporate Governance is not just only for the shareholders, but it is as much important for the corporations themselves. To experience the goodness of corporate

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governance and to realize its immense benefits, corporate should have staunch belief in the concept and its practice.

OBJECTIVES OF THE STUDY

The main objective of the study is to discuss the failure of corporate governance at Satyam Computer Services.

METHODOLOGY

The study is based on secondary data. The secondary data source is research journals, books, news papers, magazines, internet etc. The secondary data is collected by visits to libraries for accessing books, research journals, news papers, magazines, browsing internet etc. The data is compiled in the form of tables wherever necessary.

MECHANISMS OF CORPORATE GOVERNANCE

In India, there are six mechanisms to ensure good corporate governance:

1. Companies Act

In India companies are regulated by the Companies Act, 1956. It is one of the biggest legislations with 658 sections and 14 schedules. The arms of the Act are quite long and touch every aspect of a company's insistence. The Act confers the following legal rights to shareholders: 1. To vote on every resolution placed before an annual general meeting; 2. To elect directors who are responsible for specifying objectives and laying down policies; 3. To determine remuneration of directors and the CEO; 4. To remove the directors and 5. To take active part in the annual general meetings.

2. SEBI Act

The primary securities law in our country is the SEBI Act, 1992. The board has taken a number of initiatives towards investor protection. One such initiative is to mandate information disclosure both in prospectus and in annual accounts. While the Companies Act itself mandates certain standards of information disclosure, SEBI Act has added substantially to these requirements in an attempt to make these documents more meaningful.

3. The Capital Market

Capital Market has considerable impact on corporate governance. The minority shareholders also can play effectively. They can refuse to subscribe to the capital of a company in the primary market and in the secondary market; they can sell their shares, thus depressing the share prices. A depressed share price makes the company an attractive takeover target.

4. Nominees on Company Boards

Development banks hold large blocks of shares in companies. These are equally big debt holders too. Being equity holders, these investors have their nominees in the boards of companies. These nominees can effectively block resolutions, which may be detrimental to their interests.

CORPORATE GOVERNANCE FAILURE AT SATYAM

Corporate Governance Failure at Satyam is one of the Corporate India's worst unfolding chapters. Corporate governance is a field which constantly investigates how to secure and motivate efficient management of corporations but it is failed to estimate the intensity of the gangrene in the organization. Questions also arise on the role of the auditors, and how such a magnitude of financial fraud could have gone unnoticed. It has begun as a corporate governance issue and turned into a major financial scandal for the ages in India.

The Founder & CEO of Satyam Computers, B. Ramalinga Raju, announced that the company had been falsifying its accounts for years. Corporate India was hit by its first market scandal on January 7, 2009. The chairman of Satyam admitted to fraud and inflating the revenue and costs and resigned from the company and the board. The promoters inflated the revenue and profit figures of Satyam. In the event, the company has a huge hole in its balance sheet, consisting of non-existent assets and cash reserves that have been recorded and liabilities that are unrecorded. According to the 'confessional' statement of Mr. Raju, the balance sheet shortfall is more than Rs.7000 crores. It is shocked that the money had been recorded in Satyam's balance sheets and books of accounts had been audited by the internationally reputed firm of auditors, Price Waterhouse Coopers (PWC). A most alarming aspect of the episode was that Raju acknowledged that his company's financial records had been manipulated for the last several years. The down fall of Raju began when Satyam attempted to acquire two companies controlled by his sons - Maytas Properties and Maytas Infrastructure for 1.6 billion dollars in order to compensate the holes in the books of accounts. That abortive attempt precipitated a collapse in the price of the company's stock and a shocking confession of financial manipulation and fraud from its chairman, B. Ramalinga Raju.

One possible cause could be the desire to drive up stock values. The benefits derived by promoters from high stock values allowed them to buy a real wealth outside the company and gave them the invasion money to acquire large stakes in other firms.

Table-I
Satyam promoters share of equity in the company

Year	Promoters share (in per cent)
2001	25.6
2002	22.26
2003	20.74
2004	17.35
2005	15.67
2006	14.02
2007	8.79
September, 2008	8.65
January, 2009	5.13

Source: CMIE database

Table-I reveals that the state of the promoters fell sharply after 2001. The promoters share was 25.60 per cent of equity in the company in 2001. This fell to 22.26 per cent in 2002, 20.74 per cent in 2003, 17.35 per cent in 2004, 15.67 per cent in 2005, 14.02 per cent in 2006, 8.79 in 2007, 8.65 at the end of September 2008, and 5.13 per cent in January 2009. The earlier declines must have been the result either of sale of shares by promoters or sale of new shares to investors. But the recent decline of promoters share attributes that the promoters had driven up the stock values by falsifying account books then they sold their shares at high market price to acquire large stakes in other firms.

Table-II reveals that the number of shares held by the promoter group fell from 7.16 crore to 5.8 crore between september, 2001 and september, 2008. This points out to a conscious decision by the promoters to sell shares, which may have been used to acquire assets elsewhere. The more inflated the share values, the more of such assets could be acquired.

Table-II
Number of shares held by promoters in Satyam Company

Year	No.of shares (in crores)
2001	7.16
2008	5.8

Source: CMIE database

Mr. Raju's confession is also suspect for another reason. Even he and his colleagues were inflating revenues and profits; the actual revenue earning capacity of the company seems to be extremely low. If Satyam Computer Services was cooking its books, it was engaged in activities similar to that undertaken by other similarly placed IT or ITES companies and it too had a fair share of Fortune 500 companies on its client list.

Table-III reveals that the ratios of profit before tax to its total income of Infosys were 32.3 per cent, that of TCS 23.1 per cent, of Satyam 27.8 per cent, and that of Wipro 19.2 per cent for the year ended March, 2008. This suggests that either Mr. Raju is exaggerating the hole in the balance sheet or there is some other, more complex, and more disturbing explanation.

Table-III
Ratios of profit before tax of its total income of different companies

Company	PBT (in per cent)
Infosys	32.3
TCS	23.1
Satyam	27.8
Wipro	19.2

Source: CMIE database

Despite indicators of these kinds, which could raise suspicion, Satyam Computer Services remained a leading player with substantial investor support for many years. The promoters continued to hold control over the company despite the small share in equity they held and built an empire with land assets and contracts for executing prestigious infrastructural projects. And despite its award-winning reputation for corporate governance, its impeccable board with high-profile independent directors, and its appointment of big-four member PWC as its auditor, this mysterious accounting fraud occurred.

CONCLUSION AND SUGGESTIONS

The Satyam episode did manage to shake Corporate Governance system. Satyam was a watermark in terms of corporate governance in India. There has been a shift in the attitude of promoters. Corporate governance is moving to meaty issue from being ritualistic. It's not a complete shift but a journey that has started. However, the following suggestions are given to have good corporate governance:

1. CEO and board chair roles should be segregated.
2. Independent directors need to spend more time in understanding the various business opportunities, environment and culture.
3. Independent auditors need to conduct various exclusive sessions on a one-on-one basis with the management, internal auditors and external auditors.
4. Exclusive background checks should be carried out on senior managers joining the organization.
5. Companies should screen customers, vendors, joint venture partners with whom it does business for their commitment and adherence to ethical practices.
6. The scope of whistle-blower policies should be extended to the wider stakeholder group.
7. Investors, lenders, analysts should proactively question management on areas pertaining to corporate governance.
8. Stakeholders should ensure that the composition of the board is a balanced mix of independent directors and management appointees.

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PERSPECTIVE AND PROSPECTIVE: A 360° APPRAISAL ON ACCOUNTING EDUCATION AND RESEARCH IN INDIA

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ABSTRACT

The focus of the study is on Accounting education and research in India. The research paper is a 360 degree appraisal on accounting education and research covering most likely entry of foreign universities into India, factors affecting accounting education and research, practical examinations in all the subjects in B.Com introduced by the universities in Andhra Pradesh with an intention to bring practical and industry orientation in the curriculum, fresh UGC guidelines for admission into PhD and recent developments with specific reference to Accounting Education and Research in India. Accounting education in our country has been witnessing certain positive changes. As it is felt by all and sundry that more practical and industry orientation is required, the universities in Andhra Pradesh have introduced revised curriculum where in a student has to appear for practical examination in all the subjects. The UGC has introduced guidelines for admission into and for the award of PhD degrees. The government of India is seriously considering allowing foreign universities into India. It is opined that all these measures would help the nation in improving the quality of education and research. In the light of these factors, it is proposed to carry out a research on accounting education and research in India.

OBJECTIVES OF THE STUDY

The following are the objectives of the study:

- To know about the factors affecting Accounting education and research
- To know the perceptions of lecturers on UGC guidelines for admission into PhD
- To discus about the impact of foreign direct investment and most likely entry of foreign universities into India on Accounting education and research.
- To discuss about the recent developments with specific reference to Accounting education and research in India.

HYPOTHESIS

Null hypotheses have been formulated for 1.5.1 of the study. The hypotheses are:

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H_0: The opinions of students and lecturers do not differ significantly on improvement of Quality of Accounting education and research on entry of foreign Universities into India.

H_0: The opinions of students and lecturers do not differ significantly with regard to the Problems foreseen with regard to the entry of foreign Universities into India.

METHODOLOGY

The required data are collected by using 5 different sets of structured questionnaires to 220 respondents from different colleges in Hyderabad. Stratified random sampling method has been used. The sample size is 220 consisting of 120 students and 100 lecturers. Statistical tools such as Factor analysis, chi-square test and Mean scores on five point and three point rating scales have been used for analysis.

ANALYSIS AND FINDINGS OF THE STUDY

The findings of the study are discussed in 1.5.1 to 1.5.5 in the subsequent part of the study.

Foreign universities

The present part of the study deals with the impact of foreign direct investment and most likely entry of foreign universities into India on Accounting education and research in India. The details are analysed on a three point rating scale ranging from 3 to 1 for responses 'yes', 'in-part' and 'no' respectively. The following hypothesis has been formulated and tested using Chi-Square test.

Table 1
Chi-Square Test Results of Perceptions of Lecturers and Students on Improvement of Quality of Accounting Education and Research on the Most likely entry of Foreign Universities into India

Sl. No.	Statement	Pearson Chi-Sq value	df	Asymp. Sig. (2-sided)	Result
1	Improvement in the quality of research works	66.000	2	.000	Rejected
2	Introduction of practical accounting methods	51.789	2	.000	Rejected
3	Increased enrolments in accounting	19.636	2	.000	Rejected
4	Opportunities for accounting people	41.455	2	.000	Rejected
5	Competitiveness in the education system as a whole	66.000	1	.000	Rejected
6	Access to international journals	44.571	2	.000	Rejected
7	Betterment in evaluation methods	41.455	2	.000	Rejected
8	Introduction of quality programmes	38.609	2	.000	Rejected
9	Industry interface for accounting research	19.636	2	.000	Rejected
10	Improvement in teaching learning process	27.429	2	.000	Rejected

Source: Primary Data

The table reveals that the null hypothesis is rejected for all the above statements. The critical value as calculated is much higher than the table value. Hence the null hypothesis is rejected. The test result states that there is a significant difference in the opinions of respondents (lecturers and students). Majority of the students have strongly felt that the quality of accounting education and research would improve with the entry of foreign universities. The lecturers have opined that there may be partial improvement in this area. The null hypothesis is rejected due to the difference in the opinions of the two groups of respondents.

It is also seen whether the respondents foresee any problems with regard to the entry of foreign universities in India.

Table 2
Chi-Square Test Results of Perceptions of Lecturers and Students on Problems Foreseen with Regard to the Entry of Foreign Universities into India

Sl. No.	Statement	Pearson Chi-Sq value	df	Asymp. Sig. (2-sided)	Result
1	Might lead to cultural imperialism	17.815 (a)	2	.000	Rejected
2	Foreigners will be exploiting large markets in India	1.600 (a)	2	.449	Accepted
3	Public subsidies will be reduced	5.339 (a)	2	.069	Accepted
4	Societal concept would be neglected	17.280 (a)	2	.000	Rejected
5	Unbearable cost of education for an average Indian	11.657 (a)	2	.003	Rejected
6	May lead to entry of less reputed foreign universities	3.703 (a)	2	.157	Accepted
7	May lead to false marketing of foreign programmes	7.680 (a)	2	.021	Rejected
8	Scope for violation of guidelines	30.905 (a)	2	.000	Rejected
9	Advantage of learning in Indian languages will be lost	15.370 (a)	2	.000	Rejected

Source: Primary Data

The null hypothesis is rejected for the statements 1, 4, 5, 7, 8 and 9. The critical value as calculated is much higher than the table value. Hence the null hypothesis is rejected. The test result states that there is a significant difference in the opinions of respondents. The response percentages of both the groups are as follows leading to difference in opinions:

- 80% of the lecturers have expressed that the entry of foreign universities may lead to cultural imperialism as against 30% of students.
- 80% of the lecturers have expressed that the entry of foreign universities may lead to neglect of societal concept as against 32% of students.
- 80% of the lecturers have expressed that the entry of foreign universities may lead to increase in cost of education becoming unbearable to a common Indian as against 40% from students.
- 78% of the lecturers strongly opined that the entry of foreign universities may lead to loss of advantage of learning in Indian language as against 32% from students.

It is felt by the respondents of both the groups that public subsidies will be reduced and less reputed foreign universities may take undue advantage.

The null hypothesis is accepted for the statements 2, 3 and 6 stating that there is no significant difference in the opinions of students and lecturers with regard to these statements. The calculated critical value is lesser than the table value and hence the null hypothesis is accepted.

Attributes Affecting Accounting Education and Research - Factor Analysis: It is proposed to study the attributes affecting Accounting education and research. The data has been collected from 100 lecturers on Likert's 5 point rating scale (Scaling from 5 - 1). 22 attributes affecting Accounting education and research have been identified through a pilot study. The responses have been analysed using factor analysis technique. The attributes identified are as follows:

Table 3
Attributes Affecting Accounting Education and Research

Sl. No.	Attribute
Atr 1	UGC guidelines for Ph.D
Atr 2	Simulation labs
Atr 3	Entry of foreign universities
Atr 4	Incentives for Ph.D from private colleges
Atr 5	Introduction of group projects at degree level
Atr 6	Improvement in examination system
Atr 7	Updating by Accounting teachers
Atr 8	Research guidance from IAA
Atr 9	Separate accounting department in colleges
Atr 10	Add-on courses
Atr 11	Initiatives of UGC, Universities and other apex bodies
Atr 12	Improvement in evaluation methods
Atr 13	M.Phil through distance mode
Atr 14	e-learning courses
Atr 15	Improvement in infrastructure
Atr 16	Research paper writing
Atr 17	Attending conferences, seminars, workshops etc.,
Atr 18	Statistical tools
Atr 19	Exemption from Ph.D eligibility test for CAs, CWAs and CSs
Atr 20	Industry sponsored research programmes
Atr 21	work shops on research methodology
Atr 22	Reading habits & review of literature

Source: Primary data

Factor analysis is a data reduction statistical technique that allows simplifying the correlational relationships between a number of continuous variables. The study is intended to explore the important factors affecting the accounting education and research. Principal Component Analysis is used, since it is an exploratory factor analysis.

To test the acceptability of data, the following steps were taken:

- The correlation matrices were computed. It revealed that there is enough correlation to go ahead for factor analysis.
- Kaiser-Meyer-Olkin Measure of Sampling Adequacy for individual variance is studied. It found sufficient correlation for all the attributes. A measure which is more than 0.6 is considered 'mediocre' and is acceptable. A measure <0.5 is not acceptable.1 The measure of sampling adequacy is found to be 0.604. It indicates that the sample is good enough for sampling.
- The overall significance of correlation matrices is tested with Bartlett's Test of Sphericity providing support for the validity of the factor analysis of the data set. It also tests whether the correlation matrix is an identity matrix (factor analysis would be meaningless with an identity matrix). A significance value <.05 indicates that these data do not produce an identity matrix (or "differ significantly from identity") and are thus approximately multivariate normal and acceptable for factor analysis. After the standards indicated that the data are suitable for factor analysis, Principal Component Analysis is employed for extracting the data, which allowed determining the factor underlying the relationships between a number of attributes.

The Total Variance Explained suggests that it extracts one factor which accounts for 63.763 percent of the variance of the relationship between attributes. The criteria for extracting initial factors are Eigenvalue of over 1. A total of eight factors are extracted with a total variance explained being 63.763 %. The proportion of variance in any one of the original attributes, which is being captured by extracted factor, is known as communality.2

The communalities table tells that after eight factors are extracted and retained, the communality is 0.722 for attribute 1, 0.720 for attribute 2, 0.538 for attribute 3, 0.666 for attribute 4 and so on. It means that 72.2% of the variance of the attribute 1 is being captured by the eight extracted factors together. The higher the loading, the more important is the factor. However, Comrey (1973:1346) suggested that anything above 0.44 could be considered salient, with increased loading becoming more vital in determining the factor.2

Rotation is necessary when extraction technique suggests that there are two or more factors. The rotation of factors is designed to give an idea of how the factors initially extracted differ from each other and to provide a clear picture of which item loads on which factor. There are only eight factors, each having Eigen value exceeding 1. Varimax rotation is applied for the selected 22 attributes. Varimax rotated factor analytic results for factors affecting the Accounting education and research. The factor loadings of the 18 attributes are observed and clubbed into 8 factors.

The summary is given below:

Table 4
Summary of Factor Analysis Results

Attribute	Loading	Attribute	Loading
Factor 1:Research Methodology		**Factor 2:Teaching Methods**	
Industry sponsored research programmes	.869	e-learning courses	.707
Work shops on research methodology	.829	Add-on courses	.656
Reading habits & review of literature	.678	Updating by Accounting teachers	-.511
Statistical tools - Proper usage	.608		
Eigen value	***2.882***	***Eigen value***	***2.094***
% of Variance	***13.101***	***% of Variance***	***9.518***
Factor 3: New Concepts		**Factor 4: Improvements Required**	
UGC guidelines for Ph.D	.840	Improvement in evaluation methods	-.766
Simulation labs	.811	Improvement in examination system	.648
		Improvement in infrastructure	-.559
Eigen value	***2.037***	***Eigen value***	***1.815***
% of Variance	***9.260***	***% of Variance***	***8.252***
Factor 5: Qualitative Research		**Factor 6: Apex Bodies**	
Research guidance from IAA	-.760	Initiatives of UGC, Universities and other apex bodies	.739
Exemption from Ph.D eligibility test for CAs, CWAs and CSs	.569		
Eigen value	***1.480***	***Eigen value***	***1.324***
% of Variance	***6.727***	***% of Variance***	***6.018***
Factor 7: Research Aptitude		**Factor 8: College Management**	
Research paper writing	.768	Incentives for PhD by the private colleges	.803
Attending conferences, seminars, workshops etc.,	.533		
Eigen value	***1.228***	***Eigen value***	***1.167***
% of Variance	***5.580***	***% of Variance***	***5.307***

Source: Primary Data

Rejection of Attributes

Four attributes are rejected by the factor analysis as the loadings are less than 0.44. The attributes 'Entry of foreign universities', 'Introduction of group projects at degree level', 'Separate accounting department in colleges' and 'M.Phil through distance mode' having least loading are rejected. Hence it may be concluded that these four factors do not have any significant role on the improvement of Accounting education and research as opined by the respondents.

Practical examinations in all the subjects in B. Com: This part of the study deals with the perceptions of the students about practical exams in various subjects conducted by Osmania University with an intention to bring industry and practical orientation in the curriculum. The practical exam in each subject carries 30 marks.

Table 5
Perceptions about the usefulness of practical examinations

Statement	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Mean	4.39	4.58	4.59	4.56	4.73	4.16	4.27
Ranking	5	3	2	4	1	7	6

Source: Primary data
1. Industry orientation; 2. Increased job opportunities; 3. Practical knowledge; 4. Strong conceptual base; 5. Updating of skills; 6. Analytical thinking; 7. Synchronizing theory with practice.

The table/study reveals that commerce practicals would help the student in the following ways (Ranked as per the mean scores obtained)

- Updating of skills
- Practical knowledge
- Increase in job opportunities
- Strong conceptual base

Table 6
Opinion of Students Regarding Various Aspects Relating to Practicals

Statement	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Mean	2.44	2.68	2.03	2.11	2.33	2.11	2.33	2.31
Inference	Normally Equipped	Well Equipped	Satisfied	Available	Satisfied	Satisfa-ctory	Satisfa-ctory	Time-just sufficient

1. Commerce lab; 2. Computer lab; 3. Teaching of practical subjects; 4. Availability of computers; 5. System of conducting practical exams; 6. Attitude of internal examiner; 7. Attitude of external examiner; 8. Syllabus with specific reference to lab work

The study reveals the following

- The Commerce labs in the colleges under study are normally equipped. Perhaps the labs require allocation of more resources.
- The computer labs are fully equipped.

- The students are satisfied with system of conducting practical exams. The respondents felt that the teachers have to put in sincere efforts to make the teaching - learning process more effective.
- The attitudes of the internal as well as external examiner are just satisfactory.

The respondents stated that the successful conduct of practical exams is largely dependent on (Prime factors):

- Attitude of the student
- Time management, Timely preparation of lab records
- Well equipped commerce lab and computer lab
- Attitude of the lecturer
- Attitude of the management
- Proper training to teachers on time

Fresh UGC guidelines for admission into PhD

This part of the paper deals with the perceptions of the lecturers about newly introduced guidelines of UGC for admission into Ph.D. Here, responses are collected on Likert's 5 point rating scale (Scaling from 5 to 1).

Table 7
Perceptions about UGC guidelines for admission into Ph.D

Statement	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Mean	3.05	3.80	3.70	4.20	3.15	3.50	3.90	4.40	3.65	2.95	4.10	4.15	4.20	4.20	4.75	4.45
Inference	NO	PA	PA	PA	NO	PA	PA	PA	PA	NO	PA	PA	PA	PA	TA	PA

TA: Totally Agree; PA: Partially Agree; NO: No Opinion; PDA: Partially Disagree; TDA: Totally Disagree

Statements

1. It is difficult for a guide to maintain the quality of research as one can guide 8 Ph.D scholars and 5 M.Phil scholars; 2. It may be difficult for a teacher with 20-30 years of teaching experience to clear the entrance test; 3.The guidelines are silent regarding minimum pay scales for PhDs; 4. Most of the aspirants are not knowledgeable about the new guide lines; 5. The marks in the qualifying exam may be reduced to 50 percent for CA/CWA/CS; 6. There could be a decrease in the number of publications as publications are not considered; 7.There are no incentives for qualitative research in the guidelines; 8. Placing the doctoral thesis on the Website is a brilliant idea; 9.It is not clear as to the paper publication as suggested in the guidelines refers to paper forming a part of PhD work or otherwise; 10. The admission into PhD should be based on common entrance exam at state level; 11. The panel for evaluation of the PhD thesis may consist of PhDs from universities, Government colleges and aided colleges..; 12. The guidelines will bring about uniformity in the admission procedure; 13. The quality of research will be improved substantially; 14. The increase in student to guide ratio (8: 1) would provide opportunities to more number of researchers; 15. UGC may

consider extending FDP (faculty development programme) to unaided lecturers; 16. UGC may also suggest a uniform procedure and criterion for the appointment of PhD guides.

The respondents have agreed on all the statements except statement numbers 1, 5 and 10 where most of them had no opinion. The respondents opined that it may be difficult for a teacher with 20-30 years of teaching experience to clear the entrance test. The marks in the qualifying exam for applying for admission into PhD may be reduced to 50 percent for CA/CWA/CS. The guidelines will bring about uniformity in the admission procedure. The quality of research will be improved substantially.

Latest developments

The present part of the study deals with latest developments in respect of Accounting education and research. The findings are as follows.

1. **Enrolments in M.Com:** The number of enrolments in M.com is on the decline in Osmania University in the regular stream and also in the distance mode. Same is the case with the enrolments in M.Com in Dr B.R.Ambedkar Open University in AP. The reasons for the decline in the number of enrolments could be due to the lucrative jobs provided by the soft ware and service sector to the graduates, lack of flair for teaching, preference for professional courses such as MBA and MCA by the Commerce graduates. **The child (MBA) has overtaken the parent (M.Com)**. It is interesting to note that there is heavy demand for M.Com in Bangalore University where even management seats are in heavy demand. In some of the universities in the southern part, the students join M.Com as there is a demand for PGTs who should posses a PG degree and also B.Ed.
2. **e- Learning courses** are being introduced by ICAI, KESDEE and other organisations in accounting finance and related areas. The demand for these courses is quite less. The courses are cost effective and informative. It appears that most of the respondents are not knowledgeable about these courses.
3. **Research on research publications:** 25 issues of different journals have been referred. In all, about 300 papers have been reviewed. It is found that there is an improvement in the usage of statistical tools in the research publications during the period 2003-10. In about 40% cases no statistical tool is applied. The study reveals the following:
   (a) The details about statistical tools used in the remaining papers (where statistical tools are used) are shown in table 8.
   (b) Models are used effectively in less than 1 percent of the research papers.(c). Emerging areas such as forensic accounting, activity based costing, strategic cost management, taxation policies in different countries, taxation system in India over a period of time etc are not touched upon by most of the researchers. The other areas that require the attentions of the researchers are carbon credit accounting, fair value accounting and accounting for derivatives.

Table 8

Statistical tools used	Percentage (approximately)
Simple percentages	26
Chi square test	10
ANOVA	14
Z Values	6
SD, Mean	6
Factor analysis	14
Other tools (U-test, multi variate regression analysis..etc)	24

Source: Primary data

4. **Teachers:** The number of lecturers working in aided posts is coming down drastically. The managements of most of the colleges are making very nominal payments to the lecturers working in unaided posts.(a) Most of the unaided lecturers are untrained and there is a need for conducting a workshop for new entrant lecturers. Universities may also consider introducing 'PG Diploma in Teaching in Accounting / Commerce' in order to improve the quality of teaching. (b) The UGC may consider fixing minimum pay scales for unaided lecturers.
5. **New courses in Accounting, Finance and Control:** The study reveals that new courses such as M.Com (finance and control), certificate courses, diploma courses, PG Diploma in accounting, finance and other allied subjects are now being introduced by the universities. It will take another few years to create demand for these courses. The demand for CA foundation is gradually picking up and the slogan of CA institute "Catch them young" is yielding good results.

CONCLUSIONS

There has been some improvement in the quality of Accounting education and research in India due to the measures taken up by UGC, Universities and educational institutions.

The summary of the study is as follows:

Particulars	Perspective	Prospective
The impact of most likely entry of foreign universities in India on accounting education and research	Perceived to have a favourable influence on the quality of accounting education and research with regard to the quality, employment opportunities and competitive atmosphere	Public subsidies will be reduced, and May lead to entry of less reputed foreign universities into India .

Contd....

Particulars	Perspective	Prospective
The major factors influencing accounting education and research in India as perceived by the respondents and as analysed through factor analysis	Industry sponsored research programmes, e-learning courses, Add-on courses, Reading habits & review of literature, Simulation labs etc. are perceived to be important.	Non-government organisations such as IAA, ICA & industry need to play an important role in improving the quality.
Practicals in various subjects in B.Com by the universities in Andhra Pradesh.	Would help the student in Updating of skills, Practical knowledge, Increase in job opportunities and Strong conceptual base	The costs involved in the establishment of commerce lab may prove to be costly.
New UGC guidelines for admission into PhD	It may be difficult for a teacher with 20-30 years of teaching experience at UG level to clear the entrance test.	The quality of research will be improved substantially.
Latest developments	New courses with accounting and allied subjects as specialisation are being introduced. The demand for CA foundation is gradually increasing. The demand for PhD in AP is increasing due to several factors.	These new developments will have a positive impact on accounting education and research.

It can be concluded that some of the progressive measures taken by the UGC would definitely help the nation in improving the quality of accounting education and research in India. However, the initiatives, attitudes and aptitudes of the stakeholders play an important role in improving the present state.

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CORPORATE GOVERNANCE IN TEXTILE INDUSTRY: A CASE STUDY OF TEXTILE INDUSTRY OF WESTERN INDIA

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ABSTRACT

The article is a part of a minor research project on ""Ethics in Accounting in Indian Textile Industry: An indepth study of selected textile units in India" in the year 2006-2007. The article analyses the ethical conduct of Managers, officers and supervisors of five big cotton textile companies in India between 2001 to 2007. these five textile units are Arvind Mafatlal Group, Arvind Mills, Sintex Mills (earlier name is Bharat Vijay Mills), Garden Silk mills and Blublend India Limited. One of the company is loss making company and others are profit making companies. The findings support positive relationship between profit making units and corporate governance.

The focus, post Satyam-but also dating back to Enron-has been on corporate governance. However, many aspects can usefully be abstracted to the broader level of national governance. As in a company, so also with government, it is necessary to have mechanism to check frauds or misuse of power. In this, Parliament could play a role akin to that of the board of directors. Already, the Right to information Act has brought about transparency and facilitated 'whistleblowing' and one hopes that there are no amendments---as is being talked about-to limit its scope. An analysis of finance's ethical issues is vital. The cases of WorldCom and other major business scandals show that corporate governance issue pervade the financial environment. Corporate governance is one of the pillars on which stands success in finance-it builds sustainable enterprise, trust, organizational strength, and personal satisfaction. Therefore, the financial decision maker must learn to identify, analyze and act on the corporate governance issues that may arise. Consequences, duties, and virtues stand out as three important benchmarks for ethical analysis. Nevertheless, the results of such analysis are rarely clear-cut. But real business leaders will take the time to sort through the ambiguities and do "the right thing" in the words of Edwin LeFevre. These and other corporate governance themes will appear throughout finance case studies and one's career.

The major textile industries of Western India are : 1. Arvind Mafatlal Group, 2. Arvind mills Limited. 3. Raymonds Limited. 4. Sintex Limited (Earlier, Bharat Vijay Mills), and 5. Garden Silk Mils Limited.

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RESEARCH METHODOLOGY

The study involved the use of both primary and secondary data. Primary data was collected from 49 employees from different companies situated in western India. The secondary resources were collected from annual reports and websites of companies. This chapter deals with-

OBJECTIVES OF THE STUDY

1. to study the compliance governance practicvces as directed by 'SEBI
2. to study the ethical environment in the company
3. to ensure that directors of a company are subject to their duties, obligations and responsibilities.
4. to study whether textile industry are following provisions of corporate governance under listing agreement (clause 49)

RESEARCH FRAME WORK

The collection of the primary data was questionnaire. The frame work of questions was according to objectives of study. There were basically six parameters chosen according to SEBI guidelines and under these parameter, different queries were made to study corporate governance practices

The population consists of textile units which include composite mills, processing units, denim units and cotton textile units of different companies. The sample size of 5 units and 49 respondents of the companies were taken. 1. Arvind Mafatlal Group, 2. Arvind mills Limited. 3. Raymonds Limited. 4. Sintex Limited (Earlier, Bharat Vijay Mills), 5. Garden Silk Mils Limited

ANALYSIS

Table 1
Designation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manager.	13	30.2	30.2	30.2
	Officer	23	53.5	53.5	83.7
	Supervisor	7	16.3	16.3	100.0
	Total	43	100.0	100.0	

Source: Primary data

Information of various departments from which data had been collected.

Table 2
Departments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		2	4.7	4.7	4.7
	Bleaching	1	2.3	2.3	7.0
	Costing	2	4.7	4.7	11.6
	Design	1	2.3	2.3	14.0
	Designing	1	2.3	2.3	16.3
	dyeing,Sizing	1	2.3	2.3	18.6
	Engg.	1	2.3	2.3	20.9
	Engg. (Instrument)	1	2.3	2.3	23.3
	Finishing-Folding	1	2.3	2.3	25.6
	finishing	2	4.7	4.7	30.2
	Finishing Folding	1	2.3	2.3	32.6
	Loomshed	1	2.3	2.3	34.9
	Mechanical Engg	1	2.3	2.3	37.2
	PDD	1	2.3	2.3	39.5
	Printing	2	4.7	4.7	44.2
	Processing	4	9.3	9.3	53.5
	QCD	1	2.3	2.3	55.8
	sales	1	2.3	2.3	58.1
	Spinning	6	14.0	14.0	72.1
	SPINNING	1	2.3	2.3	74.4
	SQC	5	11.6	11.6	86.0
	Weaving	6	14.0	14.0	100.0
	Total	43	100.0	100.0	

Source primary data

Table 3
Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	22	1	2.3	2.4	2.4
	23	2	4.7	4.9	7.3
	30	3	7.0	7.3	14.6
	31	1	2.3	2.4	17.1
	32	1	2.3	2.4	19.5
	34	1	2.3	2.4	22.0
	37	2	4.7	4.9	26.8
	38	2	4.7	4.9	31.7
	40	2	4.7	4.9	36.6
	41	1	2.3	2.4	39.0
	42	1	2.3	2.4	41.5
	43	1	2.3	2.4	43.9
	45	1	2.3	2.4	46.3
	47	1	2.3	2.4	48.8
	48	3	7.0	7.3	56.1
	50	5	11.6	12.2	68.3
	52	3	7.0	7.3	75.6
	55	3	7.0	7.3	82.9
	56	3	7.0	7.3	90.2
	57	1	2.3	2.4	92.7
	58	1	2.3	2.4	95.1
	60	2	4.7	4.9	100.0
	Total	41	95.3	100.0	
Missing	System	2	4.7		
Total		43	100.0		

Source primary data

FINDINGS AND SUGGESTIONS

This chapter presents brief summary of main findings of study. Certain suggestions have also been made.

Findings

Corporate Governance practices followed by five units i.e. Arvind Mafatlal Group., Arvind Mills. Sintex Mills (Bharat Vijay Mills)., Garden Silk Mills., etc have been studied. Findings are as follows:

1. The report on corporate governance of five units show that out of five units three units i.e. Raymonds mills, Arvind mills limited, and sintex mills are compiled with the conditions of corporate governance as stipulated in the listing agreement clause 49 but Arvind Mafatlal Group and Blue Blend India Lit., are not follow the conditions of corporate governance as stipulated in the listing agreement clause 49
2. The report on corporate governance of Raymonds mills, Arvind mills, sintex mill and Blueblend India limited shows that companies meets its obligations and fulfill its responsibilities to community, customers, employees, government and other segments of society but the annual report of Arvind Mafatlal does not show the information regarding the duties and responsibilities discharged by the company.
3. Efficient conduct of business of Raymonds mills, Arvind mills, Sintex mills and Blue blend India ltd. Through commitment to transparency and business ethics in discharging their corporate responsibilities are hallmarks of the best practices followed by these units. But Arvind Mafatlal Group does not show the information regarding transparency and business ethics in discharging their corporate social responsibility
4. Arvind Mafatlal Group is trying to minimize tax responsibilities by running their units on Contract by different name at Ahmedabad Asarva mills. This kinds of practices cannot be found in other mills.

Suggestions

Certain suggestions have been made which are as follows:

1. It is suggested that Arvind Mafatlal Group should include in its annual reports information regarding it obligations and responsibilities to community, customers, employees, Government and other segments of society.
2. Arvind Mafatlal Group should include in the annual reports the information regarding transparency and business ethics in discharging their corporate social responsibilities.
3. Arvind Mafatlal Group should include the certificates from auditors intheir annual reports that certify the conditions of corporate governance as stipulated in the listing agreement Clause 49

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APPLICATION OF EXTENSIBLE BUSINESS REPORTING LANGUAGE (XBRL) FOR FINANCIAL REPORTING

**Sujit Sikidar*
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"Let us dedicate ourselves to the task of simplifying the internet's interfaces and to educating all that are interested in its use." - Vinton Cerf, the internet is for everyone.

ABSTRACT

The present paper makes an attempt to discuss the conceptual framework of XBRL with its emphasis laid down upon highlighting the various components of XBRL and the mechanism of creating XBRL statements. It focuses on analyzing the application of XBRL for financial reporting purposes and the feasibility of XBRL in developing business reporting language for Indian business entities.

INTRODUCTION

Information is key to every human action. It has become so after the emergence of information technology (IT) eliminating the physical distance, technological barriers and thus bringing the whole world at a point of congruence. Business decisions can be made rapidly in an error free environment with the application of information technology. Internet facility has helped in receiving quick information at a high speed which is reliable, uniform and can be used in making informed financial decisions. In the initial phase the web dealt primarily with plain text and images through the use of hyper text mark up language (HTML). However, subsequently Document Type Definitions and schemes were developed through the use of XML (Extensible mark up language). The XML has been extended further for its application programme in extensible business reporting language (XBRL).

It defines different components of a document. HTML is an effective means of communicating business information in a relatively small amount of space. HTML provides tags for both ordered (numbered), lists and unordered (bullet style) lists.

XBRL

Extensible business reporting language (XBRL) is an accounting and financial linkage for use in the internet. It is a structured but adaptable computer language developed to

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solve a problem. XBRL shows several relationships such as associating the cash position and cash flow of an entity in related financial statements. Its task is associating numbers with variables and matching a name to a picture. However, in using language in an internet there is a constraint. For e.g.:- In pre XBRL computer language, such as hyper text mark up language (HTML), such information cannot be processed directly by the recipients' application software. HTML is a unit but it cannot process the other relevant information. Hence, the reported data must be rekeyed in form acceptable to given customised software. XBRL is an intelligent internet language that can be used in business entities by both the parties namely provider of information and user of information from the financial statements. XBRL bridges the communication gap between the preparers and the users of financial statements on the internet. In fact XBRL is based on the extensible markup language (XML); by which both the contents and relationships can be easily established between the users and preparers of financial information.

XBRL has become the standard way of recording, storing and transmitting business, financial information from the computer information providers to the information users. It is capable of use throughout the world wherever XBRL is available for a wide variety of business purposes. It will act as a cost saving device, enhances efficiency in information storing, processing and retrieving in business and government related organisations.

XBRL runs open discussion groups where non- members can ask for specific help. Members willing to use XBRL can gain support from a range of internal groups software tools which are meant for specific tasks and are listed on the tools page on the website of XBRL. XBRL has discussion groups in which members of the public can participate.

OBJECTIVES

The present article has been developed with the following objectives

- To examine the conceptual framework of XBRL as a business reporting language.
- To examine the mandatory use of XBRL in some foreign countries.
- To analyse the feasibility of XBRL in developing business reporting language for Indian business entities.

METHODOLOGY

The present work is a descriptive type of research based on a contemporary work in financial information system. The work is based on secondary data colleted from published books, research articles published in professional journals and other websites.

MECHANISM OF CREATING XBRL STATEMENTS

We now discuss hereunder the manner of creating XBRL statements.

XBRL is an international open standard. Any organization or an individual can obtain membership and can use XBRL statements for communicating their business related information. The Securities Exchange Commission (SEC) of the U.S.A. as well as the banking regulatory body of the U.S.A. have made the preparation and furnishing of XBRL statement and information mandatory for such institutions. The members of XBRL include International Accounting Standard Board (IASB), Price Water House Coopers, Deloitte & Touché, Ernest and Young, KPMG, NASDAQ stock market, Morgan Stanley, IBM, Microsoft, Oracle. On March 5, 2002 Microsoft became the first company to publish financial statement on the internet using the XBRL framework. The manner of creating and formatting reports in XBRL tag is faster and quicker. It also reduces financial reporting cost by eliminating redundancies in financial report production.

XBRL further solves the problem by tagging individual items of data in a way that another computer can understand and work with it .Tagging is a metaphorical term for assigning coded identifiers to data. We have realized that a fully tagged datum would be described in an efficient way which is capable of retaining its identity and can be read correctly by a user's application software. As we have mentioned here above that for using XBRL in easy- to- use format there is an intervention of XML. XML is a general purpose mark-up(tagging) standard for creating languages to standardize the data exchange between different computing platforms and applications.(Hilmielifoglu, Joel Siegel, 2004). XML can be used to define new document formats by combining and reusing other formats in order to exchange information in an environment that do not share common platforms. As a pre-condition to the use of XML it is necessary to add structure and context to unstructured information which can be transmitted to the other computers of other users.

The most fundamental steps involved in XBRL report are tagging data and applying a style sheet to the tagged data with a view to convert XBRL files into a document; that document is ultimately readable and appears to be paper report like a printed financial statement. From our research investigation from the www.kpmg.com dated 17th August, 2010 it is revealed that tagged process is governed by the XBRL specifications. It also explains how to create taxonomies and instance documents. Taxonomies are the tagging dictionaries and instance documents are the files sent by a reporting entity to a recipient to deliver XBRL data.

COMPONENTS OF XBRL AND ITS USE IN ACCOUNTING INFORMATION

The basic components of XBRL and its use in accounting information have been discussed as follows:

1. XBRL specification is designed in a technical language like revenue, cost, amortization of deferred revenue expenditure, impairment of intangible assets, and recognition of revenue under accrual system for the people accustomed with generally accepted accounting principles (GAAP).
2. XBRL presupposes two conditions namely (a) it provides a framework for defining tags that is taxonomy ;(b) the relationships among them that is schema. It does not limit the extent of financial information that is to be disclosed in a financial statement nor does it change the content of GAAP financial statements. Instead XBRL permits the automatic exchange and reliable extraction of financial information across all software formats and technologies including the internet. XBRL is useful for users, preparers and regulatory agencies.

3. XBRL schema prescribes the mechanism of how to express instance documents and the process of building taxonomies around it.
4. XBRL taxonomy is a dictionary created by a group. It is compliant with XBRL specifications. It supports the method of exchanging business information. Taxonomies contain definitions essential to create tags that will be incorporated in instance documents. While doing so all the taxonomies must comply with the rules in XBRL specification. In this section, taxonomy includes a kind of conceptual framework (CF) like definition of asset, goodwill, cost, revenue, net income, gross sales, cash generated and cash equivalents. A financial reporting concept within XBRL is called an element. Each element is assigned XBRL basic attributes and relationships.
5. XBRL instance document comprises of traditional financial statement presentation. For understanding XBRL instance document, a reader must understand at the outset the definition part that is taxonomy.

FINANCIAL REPORTING MECHANISM WITH XBRL

XBRL does not imply any enforced standardization of financial reporting and it is not a rigid one. This language is flexible and is a member of the family of languages based on XML (Extensible Mark up Language). XML is a standard for the electronic exchange of data between businesses and on the internet. Under XML identifying tags are applied to items of data so that they can be processed efficiently by computer software. For instance, a Unique Identifying Tag (UIT) is applied to items of financial data such as net profit, equity, net worth, cost centre, profit centre, responsibility centre, gross working capital, net turnover etc. Similarly, XBRL shows the interrelationship of the items in an operating statement as well as in a financial statement. Under this format we can prepare style sheet depicting opening inventory, purchase made during the year, other manufacturing expenses incurred showing the cost of inventory of materials generated. This can be correlated to the credit sales made during the year and the closing inventory left unsold at the end of the financial year. With the application of XBRL tag and a mark up language we can identify the total manufacturing cost and direct operating cost incurred during the year. The use of XBRL can be of great help to the users as well providers of accounting and financial information in this era of rapid internationalization of business exchanges. The manifold benefits of application of XBRL in financial reporting have been summarized hereunder:-

- With the application of XBRL we can also reconstruct the profit & loss statement indicating the total operating expenses shown on the style sheet; the total operating income generated during the same financial year. The difference between the two would manifest the net income/net loss arising from the business.
- In the same way, we can also prepare the cash flow statement almost on a daily basis for the listed companies and for the banks. For e.g.: In respect of a listed company we can identify in the XBRL, software and tag and format the entire cash flow statement .We can assign a separate page in the format in respect of cash flow from operating activities; cash flow from financing activities and cash flow from investing

activities. Once the information content is formatted in the tag of the XBRL software, at any given point of time we shall be in a position to print out a statement of cash flow statement.

- Similarly, we can also prepare a fund flow statement by formatting the definition of fund as a difference between current assets and current liabilities or the net current assets. Once a format is developed in respect of the items having a bearing on net working capital it can be clubbed together in the format. With the XML we can also develop the current liabilities redeemable within a given financial year under different heads. Once the current liabilities are formatted in XBRL tag the same can be matched against the current assets available during a given year. The net impact of fund flow can be already preserved in the markup language in the format. Once it is done we shall be in a position to prepare a fund flow statement at any given point of time. Thus, this is the beauty of application of XBRL.
- Not only XBRL can be applied in respect of absolute figures for different kinds of financial statement but it can also be applied in relation to one item of the financial statement with another item. This is what we call ratio analysis. With the help of XBRL tag we can fit in some of the relatable accounting parameters such as earnings of the company vis-à-vis the number of shares outstanding i.e., Earnings per share; price earning ratio, paid up capital vis-à-vis total outside liability i.e., debt equity ratio; current ratio, liquidity ratio, inventory turnover ratio, debtors turnover ratio. All these can be fitted and formatted in the tag using the XBRL software. Thus, the financial analyst can instantaneously construct a sheet of ratio analysis and enabling the investor to make a wise informed investment decision. The decision so arrived is likely to be error free. Hence, once with the help of XML the software is designed and formatted the same can be applied at different points of time during the year. Thus, we observe that for reconstructing a financial statement we need not set afresh with so many people on the table to prepare the prime financial statements or a subsidiary financial statement. Hence,any kind of financial statement which is repetitive in nature, we need not put our physical and mental labour to prepare the statement since the information content in the format are already loaded in the software backed by XBRL, in no time we can reconstruct any kind of financial statement that a user may require for his investment decision.
- We further realize in the course of our research investigation that when India switches over from Indian GAAP to the IFRS from April, 2011 it becomes easier on the part of Indian companies listed in US stock exchange, Securities Exchange Commission or NASDAQ to quickly comply with IFRS requirements stipulated by Securities Exchange Commission .Similarly, foreign multinational companies operating in India under a joint venture or joint collaboration with an Indian company can easily reproduce IFRS compliant financial statements. This is an added advantage for an Indian domestic company listed in any of the world's leading stock exchanges.

- Further, when foreign companies come into Indian territory with foreign investment in the shape of foreign direct investment (FDI) they shall have to comply with the information required to be furnished to the Indian regulatory authorities. Foreign Institutional Investors (FII's) are also entering into Indian business scenario with their portfolio investment in the equity stock market. The FII's are also mandated to satisfy both the regulating authorities of the parent country as well as the host country by furnishing financial information which is IFRS compliant. Thus, XBRL as a mark up language can facilitate the quick exchange of financial information to different categories of stakeholders in respect of FDI or FII's.
- Adoption of IFRS is important in India because of close interaction with global business entities. Hence, application of XBRL as one step advancement towards adoption of IFRS would be considered to be a smooth sailing. As soon as the listed companies switch over to IFRS, it would be mandated upon them at a subsequent time period to be compliant with XBRL.
- Having considered the overall compulsive requirements of IFRS and XBRL, we realized in course of our research investigation that compilation, processing and distribution of financial information would be easier under XBRL. XBRL would facilitate the exchange of investible resources and off-shore movement of investments, financial assets in an easier manner and thereby meet the requirements of global convergence of financial information.
- Further through our research enquiry as mentioned above we realize that in the emerging business world US dollar, Euro and other Asian currencies are coming into close contact as well as conflict with each other on account of exchange rate variation, exchange rate translation, exchange rate transaction, exchange rate exposure. Once these items are formatted in XBRL, perhaps the management of foreign exchange and its control becomes an easy task for the central banking authorities as well as the corporate entities.
- When in the context of international business we have entered into several kinds of double taxation avoidance agreement (DTAA) with countries like Mauritius, Singapore, Belgium, Switzerland and further exchange of information from the banks in Switzerland for Indian citizens parking their surplus money in the Swiss Bank, such exchange of information can be facilitated by XBRL. The information so furnished in the software of the two government agencies can be kept close guarded between the two governments concerned and the eventual secrecy of such information can be maintained.

USE OF XBRL TAG ON TAX RELATED INFORMATION

XBRL format can also be designed for furnishing information in respect of transfer pricing. The transfer pricing mechanism will have a negative impact on international transactions unless the codes are revised to deal with some critical issues like period of agreement, threshold equity limits, shake hand price. All these matters now embodied under direct tax code (DTC) approved by Parliament on 30th August, 2010 be fitted into the XBRL format.

India entered for the first time in a totalisation agreement in Sept., 2009. India's first totalisation agreement, the one with Belgium came into force on Sept.1, 2009. Totalisation agreements are meant to prevent guest workers from having to pay dual social security taxes both in home country whose company deploys them temporarily abroad and in the foreign country where he works. In the absence of totalisation agreement companies that deploy detached workers abroad agree to pick up their social security tabs. Since this compensation attracts tax they pay the additional income tax too. This pushes up the overall cost of deploying workers abroad. Under this totalisation agreement with Belgium, India could convince the foreign government to treat domestic provident fund contributions as social security taxes. Under the totalisation agreement with Belgium, an Indian Co. that deploys a worker from India in Belgium would not have to pay his Belgium social security tax, if both the companies and the workers make their due contributions to the employees' provident fund in India (Sujit Sikdar, 2010). Hence use of XBRL software encompassing the conditions stipulated in an inter- governmental totalisation agreement can be efficiently processed in the format. The eventual tax liability can be easily computed from year to year. Through the XBRL the exchange of employment related information between a host country and foreign country with regard to the movement of workforce and the calculation of eventual tax liability can be easily done through XBRL formulated tagging facility. (Sujit Sikidar, Tax reform measure in India : Potential for GST and Direct Tax Code, The Strategist, Journal of Business Management., Assam University, Silchar, Volume.-I , No. 1, 2010 - Pg 7 to 16)

CONCLUSION

Thus, the objectives no. 1 & 2 stated above have been fulfilled. Our research enquiry reinforces our belief that XBRL can be an efficient internet friendly software language mechanism to derive reliable information for quick business related decisions. It would be useful at the same time for cost accounting and tax accounting. When the country switches over to a new tax system namely GST along with direct tax code (DTC) perhaps XBRL may be a useful language to coordinate the centre-state as well as inter-state and intra-state exchange of information through the new software facility.

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MOVING TO IFRS : FIRST MOVER'S ADVANTAGE

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ABSTRACT

In the present global scenario,the importance of IFRS is continiously increasing.The author has made an attempt to analyse the treatment of IFRS in specific areas.The author has also identified challenges in this regard.

INTRODUCTION

International Financial Reporting Standards (hereafter called IFRS), developed by International Accounting Standards Board (hereafter called IASB), are Standards, Interpretations and the Framework for the Preparation and Presentation of Financial Statements. IASB is a private sector organization based in London which began its operations in 2001. Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (hereafter called IAS). IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (hereafter called IASC), the predecessor body of IASB. International Financial Reporting Standards are a "principles based" set of standards which comprise of 1) International Financial Reporting Standards (IFRS) - standards issued after 2001, 2) International Accounting Standards (IAS) - standards issued before 2001, 3) Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) - issued after 2001, 4) Standing Interpretations Committee (SIC) - issued before 2001. IFRS Comprises of mainly 8 IFRSs and 31 IASs. For the U.S issuers to consult on IFRS, the Financial Reporting Manual, published by the Division of Corporation Finance of the SEC elucidates the convergence to IFRS in detail. It also has a topic specifically for compliance to IFRS by foreign private issuers. According to Securities and Exchange Commission (hereafter called SEC), as of August 2007, approximately 85 countries in the world mandate IFRS reporting for all domestic, listed companies. It is worthy to note that all listed EU companies have been required to use IFRS since 2005. The 12 Indian companies listed in New York Stock Exchange, Dr.Reddy's laboratories Ltd moved to IFRS with a transition date of April 1, 2007. Of the 3 Indian companies listed in NASDAQ, Infosys Technologies Ltd and SIFY technologies Ltd moved to IFRS with transition dates of April 1, 2007 and April 1, 2006 respectively. The above actions are regarded as a good

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corporate governance gesture since these companies are ahead of the game perfecting their financial reporting processes and are avoiding the U.S GAAP reconciliation process, which is time consuming and expensive. When these companies switched to IFRS, a great deal of scrutiny on their internal controls were also done after implementing the top-down risk management approach as envisaged by the Section 404 of the Sarbanes Oxley Act.

CHALLENGES OF SWITCHING TO IFRS

Switching to IFRS is a strategic move for all companies adopting IFRS since it requires an effective management of stakeholder expectations, including ample budgeting and managing investor relations. This accounting exercise requires monetary sponsorship and strong support from senior management in terms of resource sourcing and commitment for the enterprise wide accounting revamp. Careful pre-planning and efforts to obtain buy-in across the organization are critical, as are related efforts to limit disruption to business and ongoing operations. Companies must unlearn many of their current finance knowledge and relearn new IFRS standards when adopting IFRS. They need a finance function that knows to expect an increased use of judgment in IFRS reporting. This is a fundamental shift in the thought process for many accounting personnel who have been trained to operate in an environment where more application and industry guidance exists. Companies will likely have to hire finance consultants and auditors who have the requisite IFRS reporting knowledge and experience, presumably within the same industry group. Companies will also have to upgrade and adapt new accounting information systems across the enterprise that is line with the changed standards.

Conversion to IFRS will mandate the need to renegotiate current business contracts and debt agreements under IFRS instead of U.S. GAAP. Companies also need to budget for the enterprise wide accounting conversion costs, including the audit effort and other external advisory/consulting costs.

THE TIMELINE

On 1 April 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. Since then the IASB has continued to develop standards calling the new standards IFRS. In 2002, the IASB and the US Financial Accounting Standards Board (hereafter called FASB) agreed to work towards reducing differences between IFRS and US GAAP. In February 2006 FASB and IASB issued a Memorandum of Understanding including a program of topics on which the two bodies will seek to achieve convergence by 2008. In August 2008, the SEC announced a timetable (RELEASE NOS. 33-8982; 34-58960; File No. S7-27-08) that would allow a limited group of companies, whose industry uses IFRS as the basis of financial reporting more than any other set of standards, to report under IFRS as soon as 2010 and require it of all large accelerated companies by 2014. In January, 2009, the SEC announced that a mandatory two year dual-reporting period would begin for most companies in 2012, with IFRS only required by 2014. Proposed start date for accelerated filers to use IFRS is 2015 and for non-accelerated filers is 2016. However, in December 2007, the SEC adopted rules to accept from foreign private issuers that file annual reports on Form 20-F to include in their SEC filings, financial statements that are prepared in accordance with IFRS without reconciliation to generally accepted accounting principles (hereafter called GAAP) as used in the United States. To implement this, SEC adopted amendments to Form 20- F, conforming changes to Regulation S- X (the SEC rules governing the format and content of financial statements), and conforming amendments to other regulations, forms and rules under the Securities Act and the securities Exchange Act. Under the SEC rule that came to effect on March 4, 2008, any foreign private issuer that files their annual reports on Form F-20 in U.S exchanges and prepares its financial statements in accordance with IFRS as issued by the IASB will no longer be required to include a reconciliation to U.S GAAP for financial years ending after November 15, 2007, in financial statements filed with SEC so long as the following conditions are satisfied: 1) the foreign private issuer must state "unreservedly and explicitly in an appropriate note to the financial statements, that its financial statements are in compliance with IFRS as issued by the IASB" and 2) the foreign issuer's independent auditor must opine in its audit report on whether the foreign private issuer's financial statements comply with IFRS as issued by the IASB. Further, a foreign private issuer in its first year of reporting under IFRS may file two years rather than three years of audited statements of income, changes in shareholders' equity, and cash flows prepared in accordance with the IFRS. This accommodation was set to expire on the first financial year starting on or after January 1, 2007. But SEC extended this accommodation indefinitely in order to provide an ongoing incentive for foreign private issuers to adopt IFRS.

FIRST TIME ADOPTION OF IFRS

IFRS 1 also called First-time adoption of International Financial Reporting Standards is an accounting standard that provides a suitable starting point for accounting under IFRSs. The company shall prepare an opening balance sheet at the date of transition to IFRSs, which date is deemed as the starting point for its accounting under IFRSs. The company need not present its opening IFRS balance sheet in its first financial statements. In general, the IFRS requires a company to comply with each IFRS effective at the reporting date for its first IFRS financial statements. In particular, the IFRS requires an entity to do the following in the opening IFRS balance sheet that it prepares as a starting point for its accounting under IFRSs: (a) recognise all assets and liabilities whose recognition is required by IFRSs; (b) not recognise items as assets or liabilities if IFRSs do not permit such recognition; (c) reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRSs; and (d) apply IFRSs in measuring all recognised assets and liabilities. Dr.Reddy's Labs Ltd and Infosys Technologies Ltd have a date of transition to IFRS as April 1, 2007 and Sify Technologies Ltd has a date of April 1, 2006 from which date they have transitioned from U.S GAAP to IFRS.

The above mentioned three companies in preparing the consolidated financial statements have availed of certain exemptions and exceptions from retrospective application of IFRS in accordance with IFRS 1. To name a few they are: Business Combinations exemption, Fair Value as deemed cost exemption, Employees benefits exemption, Share-based payment transaction exemption, Fair value measurement of financial assets or liabilities at initial recognition exemption etc. Dr. Reddy's Labs Ltd and Infosys Technologies Ltd adopted the IFRS 8 standard early enough to straighten their disclosure practices in financial reporting. IFRS 8, also called Operating Segments, is a standard that requires a management approach under which segment information is presented on the same basis as that used for internal reporting provided to the chief operating decision maker. This was adopted early since this standard did not result in any significant changes as from the disclosures for U.S GAAP. There are other IAS and IFRS standards that these companies will adopt per their business practice and industry segment when they become effective.

ADJUSTMENTS REQUIRED FOR IFRS FROM U.S GAAP

1. De-recognition of some old assets and liabilities

The companies adopting IFRS should eliminate assets and liabilities recognized using previous U.S GAAP from the opening balance sheet if they do not qualify for recognition under IFRSs. One example is that the IAS standard IAS 38 does not permit recognition of expenditure on any of the following as an intangible asset: 1) research, 2) start-up, pre-operating, and pre-opening costs, 3) training, 4) advertising and promotion and 5) moving and relocation.

2. Recognition of some new assets and liabilities

The companies adopting IFRS should recognise all assets and liabilities that are required to be recognised by IFRS even if they were never recognised under U.S GAAP. For example the IAS standard IAS 19 requires an employer to recognise its liabilities under defined benefit plans. These are not just pension liabilities but also obligations for medical and life insurance, vacations, termination benefits, and deferred compensation. Also, the IAS standard IAS 37 requires recognition of provisions as liabilities. Examples could include an entity's obligations for restructurings, onerous contracts, decommissioning, remediation, site restoration, warranties, guarantees, and litigation.

3. Reclassification

The companies adopting IFRS should reclassify certain previous-GAAP opening balance sheet items into the appropriate IFRS classification. One example is that the IAS standard IAS 10 does not permit classifying dividends declared or proposed after the balance sheet date as a liability at the balance sheet date. In the opening IFRS balance sheet these would be reclassified as a component of retained earnings.

IFRS TREATMENT OF SPECIFIC AREAS

There are several areas that IASB has not yet developed standards or in which IFRS allows options to be applied, including: 1) common control mergers, recapitalization transactions, reorganizations, acquisitions of minority shares not resulting in a change of control and similar transactions as to which there is an absence of specific standards or interpretations on accounting treatment; 2) income statements, as to which there is an absence of specific conventions as to the form and content; and 3) insurance contracts and extractive activities, as to which differing accounting treatment exists. SEC has indicated that it expects companies to provide transparent disclosure in the financial statements and operating and financial review and prospects disclosure about the accounting policies selected and the effects of those on the IFRS financial statements.

BOOK REVIEW

Elements of Statistics

Author: **Dr. B.N. Asthana,** year: **2011,** Price: **Rs. 270,** Pages: **21.71**
Publisher: **S. Chand Publishing, New Delhi**

I am honoured to write the book review on Dr.B.N.Asthana's scholarly text book "Elements of Statistics". The first edition of the book was published 50 years ago. The book is comprehensive and describes the statistical methods & enquires, methods of classification & tabulation, techniques of data presentation, measures of central tendency, skewness, deviation & correlation, frequency distribution, time series , variance analysis, interpolation, use of index numbers, chi-square test etc. The aspects of statistical quality control, interpretation of statistical data and working of Indian Statistical Organisations are presented effectively in this treatise. Suitable appendices, examples, questions and their answers, charts and graphs have enhanced the quality of presentation. The students of all Indian universities of commerce, economics, management, psychology, education can use this book for their UG and PG courses. Further, the book has shown utility for professional courses like CPT, ICWA and CS. The book is also useful to research scholars, business professionals, general readers and society at large. As it is a low priced book, it should be in the shelves of all of us.

Dr. Nageshwar Rao
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U.P. Rajarshi Tandon Open University, Allahabad

- Greetings -

Prof. B.S. Rajpurohit become Vice-Chancellor

All members of IAA convey their best wishes to Prof. B.S. Rajpurohit former president, Indian Accounting Association for being appointed as Vice-Chancellor of Jainarayan Vyas University Jodhpur.

34th All India Accounting Conference

Prof. S.S. Mody as the Conference Secretary

The topics and Chairpersons for the 34th IAA conference to be held at Jaipur are given below:

Conference Dates 17th and 18th Dec 2011

International Seminar on Accounting Education and Research
with Prof. GL Dave of Jodhpur as Chairman

Technical Session I
E-Accounting: Problems and Prospects, Chairman: Prof. B. Banerjee of Calcutta

Technical Session II
Carbon Credit Accoiunting, Chairman: Prof. K. Eresi of Bangalore

Technical Session III
Impact of Direct Tax Code, Chairman: Prof. Daxa Chauhan of Rajkot

IAA NEWS

Meeting of the IAA General House
18th December 2011

A meeting of the IAA General House will be held at the Venue of 34th Annual Conference, Jaipur with Prof. H.S. Oza in the Chair on 18th December 2011 at 12.30 p.m. to transact the following agenda:

1. Consideration of minutes of Trivandrum AGM.
2. Consideration of the Accounts of the Association
3. Topics for the next IAA Annual Conference
4. Election of Executive Members as per rules
5. And any other item with the permission of the Chair.

All the members are requested to attend the meeting.

Dr. D. Prabhakar Rao
General Secretary - IAA

Meeting of the IAA Executive Committee
17th December 2011

A meeting of the IAA Executive Committee will be held at the Venue of 34th Annual Conference, Trivandrum with Prof. H.S. Oza in the Chair on 17th December 2011 at 8.00 p.m. to transact the following agenda:

1. Consideration of the minutes of Trivandrum EC meeting
2. Consideration of the Accounts of the Association
3. Nomination of EC members for panel to nominate Jr. Vice President
4. Consideration of vacancies for election to EC as per rules
5. Co-option of members to EC.
6. And any other item with the permission of the Chair.

All the Executive Members are requested to attend the meeting.

Dr. D. Prabhakar Rao
General Secretary - IAA

Proposals for Young Researcher Award - 2011

IAA invites proposals on Research Work done during the last five years in the area of Accounting by scholars/faculty members of not more than 35 years of age as on 31-12-2011, for consideration of IAA Young Researcher Award-2011. Proposals are invited from the life members of IAA. Proposals may be submitted on or before 31st October 2011, to Dr. D. Prabhakara Rao, Professor & Chairman (BOS), Dept of Commerce & Management Studies, Andhra University, Visakhapatnam-530003 (Res: #2-Shanmukha Apartments, Andhra University Rd, China Waltair, Visakhaptnam-17), email: drdpr_2009@yahoo.co.in, Phone: 09440131863

Dr. D. Prabhakar Rao
General Secretary - IAA

REPORT ON INTERNATIONAL SEMINAR OF IAA, GUJARAT BRANCH

A one day International Seminar on Changing Paradigm on Accounting and Finance in Global Perspective was organized by Indian Accounting Association; Gujarat Branch and S.D. School of Commerce, Gujarat University on February, 12-13, 2011 at Senate Hall, Gujarat University, Ahmedabad. The Theme chosen for deliberation was "Changing Paradigm on Accounting and Finance in Global Perspective" at the seminar which was divided in Three Technical Sessions as under:

1. Impact of New Tax Code in India in Global Context
2. IFRS - A Global Convergence of Accounting Standards
3. Global Scenario of Business Ethics and Corporate Governance

The International Seminar was inaugurated by Prof (Dr) Sugan Jain, Former President - Indian Accounting Association and Dr. N.D. Shah, Dean, faculty of Commerce; Gujarat University was the special guest at the function.

In Technical Session - I, Dr. Alokchakrawal, Associate Professor, Department of Commerce & Business Administration of Saurashtra University was Chairman and Shri Sunil Talati, Former President of ICAI and Shri Kirit Shah Former President, Gujarat Tax Federation were key note speakers on Direct Tax Code.

In Technical Session - II, Prof (Dr.) S.S. Modi, Professor & Head, Department of Accountancy, Rajasthan University, Jaipur was Chairman and CA Rammohan N Bhave, CA Chintan Patel and CA PrashatMaharshi were key note speakers on International Financial Reporting Standards.

In Technical Session - III, Prof. PratapsinhChauhan, Director, MBA Department, Saurashtra University was the Chairman and Prof. (Dr.) R.P. Banerjee, Director & Dean, EIILM, Kolkata and Prof (DR.) G.C. Maheshwari, Director, MBA Department, M.S. University were Key note speakers on Corporate Governance and Business Ethics.

At the Valedictory function, Dr. Parimal H. Trivedi, Hon. Vice Chancellor of Gujarat University was the Chair Presdient. In felicitation programme, Prof. (Dr.) R.P. Banerjee, Director & Dean, EIILM, Kolkata has felicitated Dr. Parimal H. Trivedi or his outstanding achievements in Education. Dr. Parimal H. Trivedi has felicitated, Prof. (Dr.) Harish S. Oza for becoming a President of Indian Accounting Association and Prof. (Dr.) R.P. Banerjee for nomination and election as Vice-President at large by the International Association for Accounting Education & Research.

About 450 delegated (Including 5 Foreign Delegates) have attended the seminar and 220 papers were presented in three technical sessions. Prof. (Dr.) Harish S. Oza was the Seminar Director. Dr. V.Chari& Dr. Ajay Soni were Seminar Co-ordinators and Smt. ChetanaParmar& Shri BhaveshLakhaniwere the Seminar Secretaries.

Dr. D. Prabhakar Rao
General Secretary - IAA

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